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Appraisers who understand what clients want now, rather than react, will thrive

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I don't want to raise the alarm but dramatic changes are occurring (and will continue to occur) in appraising. I will focus first on the residential side and then on the commercial.

At the height of the housing crisis, say, 2009, the GSEs (FannieMae, mostly) instituted something called the MC1004, which was an attempt to develop a market trends analysis as an additional tool. While some of us believe this attempt was laudable and develops some useful information that can be applied to the valuation process, most practitioners tend to find it less than useful. Some add additional market analysis. A trend in the right direction, all in all, but with the result of more work in an environment where fees have remained in about the same place for 10 years.

The current challenge is with the Uniform Appraisal Data Set (UAD), which most appraisers tend to view as the true beginning of the Big Brother/Sister is Watching Era. Whatever will happen is just beginning to be clear. But greater oversight on data and analytical consistency is on the table.

Most residential appraisers struggle in the current low volume environment. With the refinance boom over as of Summer 2013, most are not feasting on the low amounts of lending work. Some have transitioned into other practice areas but many have exited, retired, transitioned, or just continue to complain.

Anecdotal experience suggests that many appraisers are retiring prematurely, and those that are fortunate to have a multi-person firm have figured out ways to transition out of the business. Those that can have translated their skills into related areas or have devised creative solutions such as going to work for in the children's' business.

On the commercial side, a 2013 Appraisal Institute survey notes that, "overall, appraisers have a positive outlook for their businesses because they are cautiously optimistic that demand for appraisal services will remain strong for the next one to two years." What about a longer window?

By comparison, the Institute Study notes that "commercial real estate appraisers are more optimistic than residential appraisers are that future demand for appraisal services will be greater in the next one to two years than at present. Nearly half (45 percent) of commercial appraisers said demand would be greater compared to 32 percent of residential appraisers.

Residential appraisers tend to work as solo practitioners. In the lending arena, appraisers are prisoners of housing market cycles and of Appraisal Management Companies. There is strong pressure on fees, delivery time, expanded scope of work, and follow up requirements. The clients themselves are working under pressure, fearing that substandard appraisals will trigger negative events in their loan portfolios.

Commercial appraisers appear to have access to more stable sources of business. However, the horizon is not utterly cloudless.

Some of the same forces affecting residential appraisers have affected and will continue to affect

commercial appraisers, especially those who rely strongly on financial institution work.

Commercial appraisers need to worry about: 1/ better technological solutions in terms of report writing, databases, sources of market data, and general integration of data more seamlessly into the appraisal process; 2/ continued client consolidation and demand for better and more efficient valuation solutions; 3/ a smarter and more well-informed user base that won't necessarily accept tired formats and short cut solutions to complex valuation problems. At least in the commercial arena, there are stronger prospects for appraisal practitioner "consolidation" in terms of mergers, partnerships, or membership in national coalitions.

In 2013, both residential and commercial appraisers were optimistic, at least in the short term. If such a survey were conducted today, it would likely provide more mixed results. Whether commercial or residential, the thoughtful, flexible appraiser who is able to understand what clients want now in the future, rather than merely react, will survive and perhaps thrive.

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