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Residential real estate appraising and the economy - by Jim Kasparian

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The Economy is Booming! We might have heard this recently from many sources. "The market is stronger than ever," "Stocks are soaring," or my favorite: "We are doing better than we have been in years!" These all might be true in context but which sectors are we talking about that really affect you and I? Home sales, auto sales, your IRA, employment, technology, a recent raise at work maybe? Lets focus on mine, and possibly your way we make a living, residential real estate appraising.

There are many types of appraisal work out there for the residential appraiser. Bank work which includes: Cash-out refinances, equity lines, purchases, reverse loans etc... Private work which might include: Estate valuation, valuation of real estate assets for divorce proceedings, consulting for development, litigation prep, renovation prospectus and on and on. We as appraisers either focus on a certain specialty, or remain diverse enough to cover different avenues of revenue. Each have been proven to succeed, as well as possibly handicap. With the climate we now find ourselves in, many uncertainties present itself for the real estate appraiser. For our purposes here, we will focus on bank work and its direct effect from rate hikes.

Interest Rates: Our friend and worst enemy

If you have experienced a recent slowdown in appraisal volume, there is an answer for you. A pattern that might be familiar to veteran appraisers is rearing its head again. Remember back not too long ago...2007 maybe?

When the economy shows a pattern of strength, buying power rises, and historically real estate values go up. This is a curious inverse relationship that attacks our economy in different areas for fellow appraisers. To combat inflation, the Federal Reserve raises the rate on which banks charge one another to borrow money. If concerned there is too much economic growth too quickly, the "Fed" is usually prompted to follow a similar pattern relationship rate hike. The bond rate inversely will decrease, because the fixed interest becomes less attractive to investors. As of today, the interest rate for a 30-year fixed mortgage is 4.875%. In 2000 the average interest rate for a 30-year fixed rate was 8.05%. This decreased slowly with small fluctuations until 2016 which saw the average at 3.65%. We are now seeing a climb northward. This climb has reflected a steady increase in interest rates in the past 2 years.

Interest rates go up, the bond rate goes down. This is unfortunately the perfect storm for appraisers and other real estate professionals. That storm started 2 years ago. That storm also was fueling itself in 2001 and ended up crashing in 2008. This is a brand new storm. The sister storm of 2007. This is today.

Volume vs Rate Hike

After a period of increased property values (some areas dramatically) in the past 2 years, we see some indication of a slowdown. As rates hike northward and property values stabilize, the refinance market also reflects an adjustment period. With property stabilization compounded with rate hikes, this triggers a slower/stagnant period of sales activity. Equity lines which were blossoming now are reaching a plateau. Theses products might have gone quiet as well. This might not affect sales volume too much as the adjustment might be slower, but felt as well. This ballet is frustrating and the waiting game begins. If your lucky enough to live in an area of outstanding value performance there might be more opportunity with products relating to bank assignments.

So what can we do? If this inevitable ride happens every so often, are we supposed to stand for this? Are we expected to foster the storm and/or concentrate on outside assignments. If we need to, are we expected to wait for the adjustment period? This cycle happens every so many years and is determined to repeat itself once again. This is the profession we have chosen. Some suggestions might be: Take some time to mentor a new appraiser; catch up on your continuing education; vacation.

Take some solace though, you are not alone, and we have all gone through it before. It unfortunately always carries an uncomfortable feeling and often burden of paying off the debt from living the dream.

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