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Let's advocate for human involvement in appraisals - by Tom Whiting

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In my previous article I spoke of how technology in the appraisal profession has changed over the past several decades. In this article I will be addressing the coming changes likely to affect the profession over the next decade and the possible opportunities and consequences to members of the appraisal profession, specifically commercial real estate appraisers.

There has been a downward pressure on appraisal fees for well over a decade, with lenders constantly seeking quicker and cheaper solutions for their clients that are compliant with federal regulations. If their solutions do not meet current regulations, they lobby to have regulations designed to protect consumers loosened.

Lenders report that the tightest bottleneck in the lending process is the real estate appraisal. Real estate appraisals cost money and take time. They require a well-trained, unbiased professional to perform them properly. The concept is simple, the practice is difficult.

Over the past couple of decades residential appraisers have been forced to participate in their own decimation through Freddie Mac and Fannie Mae. UAD compliant forms have enabled these two agencies to strip data from appraisal reports to build databases, which can be used to feed Automated Valuation Models.

In the commercial appraisal world, there really isn't anything equivalent to UAD compliant forms, but with the rise of Artificial Intelligence and Deep/Machine Learning that is no longer necessary. Data can be gleaned from reports without them being in a specific format. It is inevitable that lenders or their agents will attempt to gather this data and use it to develop AVMs for commercial properties.

Those of us familiar with Zillow and Redfin's valuation tools offered to homeowners are aware of the inaccuracies possible with AVMs. There already have been attempts at commercial AVMs. Some "Big Data" companies have attempted models with various degrees of success. Perhaps the lack of

accuracy achieved so far is trying to eliminate a human from the process. More importantly an objective, unbiased human who is familiar with the property in its current state as well as the local market. Does that sound like a real estate appraiser to you?

Ideally, appraisers will be the end users of these new products, to enhance their toolbox and to provide their clients what they are looking for. A quicker, less expensive appraisal for a low risk property makes sense at least on paper. Does a small mixed-use property with a loan to value ratio of 50% or less really need to have an appraisal if there is another product that can produce an adequate valuation for a much lower cost?

Appraisers, who are knowledgeable in the local market can be the gatekeeper to make sure that the output of these products makes sense. Eliminating the objective gatekeeper is flirting with another banking crisis.

One commercial AVM I am familiar with, Zaxia, requires human input to develop a value. For it to produce a credible result the user needs to have knowledge of the specific property and the market. With a minimal amount of inputs such as information about the subject property (size, quality and condition, actual or market rents among others). Generally, it takes less than five minutes to input the data to obtain a value indication. It produces an "evaluation" of the property and produces an income approach as well as comparable sales.

Is this a good thing for the appraisal profession? I believe that appraisers that embrace this type of technology and offer it to our clients as an alternative for evaluating low risk properties will have an advantage. It could also be used as a value-added product to supplement our current appraisal products.

Those of us who get in front of the changing real estate appraisal climate are likely to be survivors in the coming shakeout. We need to advocate for continued human involvement and to make sure appraisers are included in the future of the valuation process.

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