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Residential appraisal – Down the road - by Bill Pastuszek

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The rapid uptick in residential market conditions after the COVID lockdown has generated strong demand for appraisers. Given the low interest rate environment created as a market reaction to the pandemic's effects and some trends creating demand for detached housing and new construction, the uptick – rather a continuation of 2019 - was somewhat unexpected but not entirely unsurprising.

Some of the headlines. Fierce competition among buyers pushes median single-family home price to new all-time high. “The median price of a Massachusetts single-family home surged 14.3% in August as low inventory of homes for sale pressured buyers to compete aggressively, according to a new report from The Warren Group, a leading provider of real estate and transaction data.” The press release goes on to say that the number of sales in August 2020 was pretty similar to the same time in 2019. “Meanwhile” it goes on to say, the “median single-family home price increased 14.3% on a year-over-year basis to \$480,000 – an all-time high for single-family homes.” They go on to say, they see a pattern adaption to COVID. On the whole, though, transactions are down on an annual basis for both condos and one to four-families, with an increase in median prices of a bit over 8%.

The Massachusetts Association of Realtors, in their September report, note a “small decrease in closed sales of single-family homes (-.8%) in August, compared to the same time last year. Inventory remains limited, continuing the competitive bidding market with multiple offers for properties. Condominium sales decreased by -2.4% in August. The median price for single-family homes rose by 14.7% and condominium prices rose by 5.6%, when compared to August 2019.” The association notes a marked decrease in listings from summer 2020 as compared to summer 2019. The article goes on to say that the typical slowdown going into fall did not occur this year. Might that have something to do with the spring market (the lack thereof) and these rock bottom interest rates.

Massachusetts gets into NAR's “Ten Hottest Zip Codes.” The towns are Worcester and Melrose. Also, Portland makes the top five. Colorado Springs is at the top followed by Reynoldsburg, OH and

Rochester, NY. The more rural and outlying markets of the Commonwealth recently have seen over asking price activity, something that is supposedly only native to Eastern Massachusetts.

Appraisers are busy. Are they happy? Are they working efficiently? Could they be working more efficiently? If the answer is no, then what is keeping them from doing so?

The residential appraisal world is highly regulated. The forms that residential appraiser use rigidly and ask for very specific responses and documentation. The secondary market – the de facto regulator, along with its reviewers and underwriters – without a trace of humor enforce these requirements.

Appraisers are so busy “checking the boxes” that they don’t really have time for the real business at hand, which is producing well-documented values. And the secondary market expects highly accurate values and has systems in place that compare one appraiser’s data and conclusions with others.

During the last housing crisis, the GSEs instituted a market analysis form called the MC1004. No one was overly happy with it: it had its limitations. Funny, though, it filled a need of users and of appraisers. Recently the requirement to use the form was dropped.

Nothing was suggested in its place. Appraisers however still are responsible to provide credible market analysis.

Appraisers are left to their own devices to come up with an efficient way to conduct market analyses. Some have continued to use the form and enhance its limitations. Others have found less efficient ways. Others have backslid to the old ways, i.e., pre – MC1004, and don’t do much of a property specific market analysis.

There is no lack of data to analyze. Warren Group, Realtors, Case-Schiller, and plenty of other housing-related organizations and agencies. For many residential appraisers, taking hold of this data and doing something meaningful is hampered by a tyrannical fee structure and aforementioned bevy of requirement imposed on the appraisal process.

The secondary market reportedly is looking at an overhaul of the current plethora of fill-in-the-blank forms. Let’s hope that the new forms will provide the necessary flexibility and ease of use that doesn’t currently exist and is sorely needed. There are private sector solutions underway that will allow a more tech-savvy appraiser – sorely needed to freshen the profession, which is somewhat long in tooth at this point – to apply higher level skills to the appraisal process.

There’s nothing wrong with the appraisal process itself. A lot of what’s wrong with residential appraisal is the amount of effort expended to overcome the limitations of the current fill-in-the-blanks environment.

Right now, appraisal education needs a good boost to get away from antiquated, regulated

curricula. Appraisers need to learn more about using spreadsheets, database, and web-based tools in order to work well in a quantitative, data rich world.

Down the road, the successful residential appraiser will be thoughtful, precise, and have a grasp of technology that promotes efficiency, accuracy, and depth of research. That appraiser won't react to events, but be able to understand and anticipate what clients need and want. That appraiser will thrive, not merely survive.

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