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Increasing values and the appraiser's challenge - by Steven Spangle

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Housing prices have been increasing at amazing rates. This has been great for sellers but it is a challenge for appraisers. Projections for 2021 and 2020 are for increasing values. The percent of increase projected is generally slightly below the levels the market has been experiencing. The data indicates that there is still a large amount of pent-up demand. However, it also indicates that builders are rushing to start and complete developments and there are the beginnings of an increase in existing housing coming into the market as sellers with good equity and strong savings are looking to move up to higher price points. It also indicates that, depending on the source and location, prices are projected to increase from as low as 1.3% to 10.5%. Unfortunately, wages are only projected to increase by 4.65% in 2021. The difference between price growth and income levels should lead, over the next few years to a softening of the price growth.

When values are rapidly changing in either direction appraisers must avoid falling into the trap of simply applying the reported national, state, or city price increase statistics as support for a market condition adjustment. The statistics are averages for large areas. They are not for the specific neighborhood or market type of the subject. Appraisers are required to support their conclusions and any adjustments they make. In today's rapidly escalating market this can be challenging. Data developed even a year ago, when the market was very different, are no longer relevant. In a rapidly changing market appraisers must be constantly updating information. The best starting place is MLS data for the subject neighborhood. Sales data for similar properties can be compared over a few years to support market value changes in the neighborhood. Increasing markets make the use of adjustments for physical difference more challenging. As market conditions change the contribution of physical differences have to reviewed on a regular basis. When there are limited supply available buyers start placing less weight on features, they used to place value on such as a pool or fireplace. When the price offered is above the asking price it is not enough for appraisers to say "this is typical and normal in the marketplace". How has the appraiser supported that conclusion? How does that statement support the amount over asking that was paid? It is always possible the buyer is uninformed and has made a higher offer out of fear rather than one based on what is the market value of the property.

Research checks of recent MLS sales above asking price can help the appraiser support: 1) over bidding is occurring; and 2) a comparison of sales that did not sell over asking can aid in determining if the bidding war was a market price. However, care must be taken with bidding wars. Properties maybe priced under the market in order to generate over bidding. If paying over the asking is typical in the subject neighborhood it is reasonable to expect that at least one or more of the comparable sales would also involve a bidding war. The appraiser should point this out in the appraisal or discuss why the sales that are most similar to the subject did not sell for more than the asking price.

As already noted, constantly updating the adjustments for differences in physical difference is necessary in a rapidly increasing market. Keeping updated is simply one step. Appraisers must also discuss how recent their data gathering has been and the source of the data within the appraisal.

When clients and readers understand what the appraiser had done it promotes confidence and limits questions and requests for more information.

Equally important is maintaining all of the support gathered for the appraisal, even information not used, within the work file. Appraisers are required to maintain a work file which must contain sufficient information to create an Appraisal Report and to demonstrate compliance with the Uniform Standards of Professional Practice. A well-maintained work file is the best protection an appraiser can have, particularly in a rapidly changing market. Appraising in a changing market is arguably the most challenging type of appraisal and enough time should be allowed for extra explanation and support. Getting it done quickly is not as important as getting it done correctly.

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