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Residential appraisers at a crossroads - William Pastuszek

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The Warren Group tells us that in Massachusetts, “the median sale price for both single-family homes and condominiums declined in April as the lack of inventory and elevated interest rates continued to weigh on market activity.” Single family sales declined 25% compared to 23 months ago. “Meanwhile, the median single-family sale price declined on a year-over-year basis for the first time since 2018, falling 1.2%.” Nationally, Redfin reports a larger drop and notes that the steepest declines were in pandemic “boomtowns” and in expensive California markets.

Ever since interest rates started their climb in 2022, residential appraiser volume has been throttled. Residential appraisers doing mortgage work depend on workflow from two types of mortgage originations: purchases and refinances. Right now, neither source is producing much flow.

Year-to-date, there have been 10,088 single-family home sales in Massachusetts, a 25.9% decrease from the first four months of 2022. Meanwhile, the year-to-date median single family home price increased 2.9% on the same basis to $525,000.

The mortgage bankers note that loan application volumes for refinances and purchases decreased between 30% and 40% over the same month last year. The following is of interest: “Application volumes for both purchase and refinance loans decreased last week due to these higher rates. While refinance demand is almost entirely driven by the level of rates, purchase volume continues to be constrained by the lack of homes on the market.” The article notes that the average 30-year fixed rate is nearly 7%.

The Massachusetts Association of Realtors note, that for April: “The median sales price for single-family homes decreased slightly by 0.3% to $588,000 and by 1.9% to $530,000 for condominiums when compared to last year.” New listings and closed sales decreased by nearly 30%. In terms of inventory, lack of availability continues to be a “pervasive issue.” The press release notes: “While inventory is coming back onto the market, it’s not staying on and therefore has no positive impact on the inventory shortage we started the year in.” And affordability continues to be a primary issue: “Buyers are facing incredible competition for what is presently available and personally affordable.”

Not a pretty picture. No one is forecasting that rates and inflation numbers are going to nosedive soon. Yes, and it could get worse.

However, such data should not be applied uniformly as markets, while privy to the same macro forces, do not operate completely in lockstep. Many localized markets under- or over-perform. And that’s what appraisers do, i.e., measure micro-economic trends.

A commercial study sagely said, with respect to commercial real estate: “Things will get worse before they get better, and may take until 2025 to return to normal.” This sentiment is applicable to residential real estate as well.

How much worse and for how long? What to do while things “revert” back to “normal?”

And residential appraisal has more to worry about than just a lack of volume. Significant changes in the use of traditional appraisals in secondary market transactions - no longer the “default” – and the continuing rise in “hybrid” appraisal vehicle pose major challenges to residential appraisers dependent on mortgage lending appraisal orders.

A big trend in the residential appraisal media and educational spaces is “non-lender work.” This type of work represents a viable alternative to traditional appraisal. However, this road is full of pitfalls. More on this in a future article. The article will provide in-depth discussion about the challenges of alternative work and the concepts of scope of work and competency as they apply to new lines of appraisal practice.

The current market is challenging given the decline in sales volume. Undertaking adequate market analysis, finding, and researching comparables, defending their selection, and supporting adjustments becomes ever more challenging.

If writing adequate appraisal reports wasn’t hard enough, there is also much discussion about fees. The notion of “customary and usual fees” has once again emerged. The grip of AMCs on lending and appraisal is under discussion with a lot of appraiser frustration with the current state of things being expressed.

Where does that leave residential appraisers? Wait it out or adapt? My sense is that a return to the post-COVID appraisal feast is unlikely. The good appraisers will build non-lender business and employ smart technology to gain advantages in the marketplace. Expect things to be challenging going forward and think that the last few years was not “the normal.”

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