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Residential appraiser modernization and market update - by William Pastuszek

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Ever since interest rates started their climb in 2022, appraiser volume went the other way. Residential appraisers doing mortgage work depend on two types of mortgage pipelines: purchases and refinances. For a while now, neither source has produced much flow.

For context, the Warren Group noted that December 2023 sales volume was the lowest in 15 years with prices of condos and homes increasing. This continues a trend. In February 2024, year-over-year, activity was flat and median single-family prices increased by 10%. The median price of a home in Massachusetts was \$550,000. Condo sales showed a decreasing volume (-6.5%) with prices rising 6.5% for a median price of nearly \$500,000.

A February 2024 press release from the Massachusetts Association of Realtors notes: “The median sale price for single-family homes increased by 9.4% to \$569,000 and by 6.4% to \$500,000 for condominiums from February 2023. New listings increased by 23% for single-family homes and 15.9% for condominiums year-over-year. Closed sales increased by 0.3% in February 2024 for single-family homes and by 1.4% for condominiums.

The numbers are similar to those reported by the Warren Group. In February, new listings rose compared to this time in 2023, an “optimistic observation.” The press release expresses hope for a robust spring market noting that “[b]uyers should still be prepared to navigate a competitive landscape with sustained inventory challenges,” so should appraisers.

Navigating the low volume markets with increasing prices over the past several years has made for steep cliffs to climb to get to appraisal values that are well-supported and reports that are well-written.

Some thoughts on residential appraising follow.

GSE Appraisal “modernization” rollout of new reporting forms has been delayed. The current residential forms are highly outdated, presenting myriad challenges to coherent reporting, forcing appraisers to think and present information in counter-intuitive and inefficient ways.

While waiting for the forms to change, consider AI.

Artificial Intelligence (AI) is on appraisers’ minds these days. Its allure is clear both as a time saver and for gathering and analyzing data. However, the resource should be used thoughtfully and carefully.

The Appraisal Standards Board (ASB) provides advice in a recent Q&A which discussed the appraiser’s USPAP obligations when using artificial intelligence (AI) in an appraisal assignment.

“Artificial Intelligence (AI) involves replicating human-like intelligence within machines and computer systems. AI can function either independently or in conjunction with another tool to assist an appraiser with developing their opinions and conclusions (e.g., spreadsheets, analytic software) or to communicate assignment results (e.g., chatbots).

Important point: “When these tools are used for their analytical functions, such as to generate some type of output that is used in developing an assignment result, the tool does not serve as a substitute for an appraiser’s judgment.”

The ASB has stated this before. “When using a computer assisted valuation tool, an appraiser must not simply rely on the output of technology without an understanding that the output is credible. Reliance on this data without understanding the output could place credibility of assignment results in doubt.” Bears repeating.

And to further underscore the role of appraiser judgment. “Even when incorporating AI, developing credible assignment results requires the professional judgment of the appraiser.”

Having an understanding of the credibility of the result of AI while possessing the requisite competency to recognize whether the result is meaningful and applicable to the solution of the specific problem are crucial concepts. In the end, the appraiser – not the technology – takes ownership for the result.

The GSE’s have been utilizing AI technology for some time. For example, Famme Mae has been using AI to enhance the appraisal process, with a “focus on identifying appraisal defects more efficiently.” Expected to see much more use going forward.

The whole field of quantitatively based appraisal analysis is just at its beginning. As more appraisers understand the logic and efficiency of this type of analysis, the techniques will become more and more mainstream. Right now, there is much misunderstanding and misuse of this type of analysis.

Appraisers across the board are in the process of adapting to recent changes in the appraisal environment. Expect appraisal evolution to continue. Some appraisers may choose to view the changes as obstacles; others view the challenges as opportunities. A return to the old ways won’t be taking place. The judgment of appraisers will continue to be needed in an increasingly complex profession. The era of “a few comps and listings on a grid” era is gone.

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