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2009 a year of opportunities for the valuation profession

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The year ahead will hold many changes, challenges and opportunities for both residential and commercial real estate appraisers. A new president will be inaugurated on January 20th in the midst of a truly historic economic meltdown.

In a recent letter to the secretary of the treasury, several top real estate organizations, including the Appraisal Institute, predicted that over \$400 billion in commercial mortgages will mature in 2009 and will require refinancing. With most major banks sitting on the sidelines, and more stringent underwriting requirements for those banks that are lending, owners are and will find difficulty in getting much of this debt refinanced. With declining market conditions, non-performing loans will become more abundant.

To some extent the commercial real estate market in the Northeast has been insulated. Most bankers I talk to report that their portfolios are performing for the most part, with the exception of residential subdivisions and condominium developments. However, many commercial real estate companies are predicting a difficult 2009 at best. According to a recent report by Richards Barry Joyce and Partners, "The commercial office market in Greater Boston has begun to show the effects of the slowing economy, with vacancy rates creeping up and asking lease rates dropping."

In other parts of the country the commercial market has already faced very difficult times. Foreclosures across the Midwest have been prevalent for the past year. Integra Realty Resources is a national company and many of our offices are busier than ever. Those in Detroit are reporting a record year. Basically, we are where they were a year or two ago. They report increased business with respect to foreclosure work and tax abatement work, and they are benefiting from marketing programs that they put in place during their slow period in 2006 and 2007.

Appraisers will continue to be challenged by a limited amount of work related to new financing in 2009. They will also be challenged by continued fee compression in the short term. However, one of the most significant challenges will be appraising in a market with more limited comparable data. Sale and rental data will be limited in many market segments and questions will abound with respect to capitalization and discount rates.

However, looking toward the positive, opportunities for appraisers will also abound. As foreclosure work increases, a turn in the appraisal market will result in increased business and opportunities with respect to both foreclosure work and tax abatement work. Now is the time for appraisers to educate themselves as to appraising in these market conditions, and to spend time marketing and diversifying their client base.

Appraisers should also consider the fact that there will be a flight to quality over the next year. Many banking clients report that the FDIC has set up shop in their offices. Therefore, bankers are turning to their most qualified appraisers to produce quality reports that will pass muster with examiners. Regulators, bankers and borrowers will be seeking quality appraisals by experienced appraisers who know how to appraise in a slow market with more limited comparable data. They will be looking for appraisers with designations that show their commitment to the profession and that indicate they are well educated and have completed continuing education requirements. The MAI and SRA designations are the most recognized and respected professional designations in the industry. Now, more than ever, appraisers should consider membership in the Appraisal Institute. Existing members are urged to become involved and work to make the organization even stronger.

Rest assured, the Appraisal Institute is working hard for its members in these challenging and uncertain times. The Washington office continues to lobby on Capitol Hill for legislators to recognize the need for quality appraisal and valuation services, and new courses and seminars dealing with current valuation issues are continually being written.

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