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It is not enough to just be a dues paying member

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From my perspective, the forces of the universe are converging to create an ideal opportunity for appraisers. However, to take advantage of this incredible opportunity, appraisers must be prepared. Let me explain.

What are these forces? The forces are many but may be summed up in one simple statement, "History repeats itself." Remember the events of the late 1980s that gave us the real estate debacle and to a lesser extent the late 1990s that gave us the dot.com bust? If not, be assured that we are in the midst of another similar event with the dubious title of the sub-prime debacle. In all three cases, several years prior to the bust/debacle, a handful of folks, more often than not paid on a commission basis, developed a product to sell without thoroughly planning and thinking through the consequences of their actions.

In the late 1980s the product was real estate development projects where properties such as office buildings and multi-family housing units were built on speculation and banks were willing to finance them without careful consideration to who was going to tenant these developments. In the late 1990s, the product was tech stocks with prices that were unsupported by earnings. Now, the product is sub-prime mortgages with very low (and enticing) introductory rates that jumped after a number of years to a rate rendering the mortgage payment unaffordable for many.

In each instance, a lot of money was to be made. In the late 1980s, the money makers were the banks and loan officers who were paid on commission. In the late 1990s, it was the stock brokers (also paid on commission) and the investors who bought low and sold high. Now, the money maker is the mortgage broker (also paid on commission). In all three cases, many of the people who were paid on commission made their money, at times using unscrupulous tactics, and have moved on to other activities. Although they may no longer be employed as a loan officer, stock broker or mortgage broker, they have no other negative consequences for their actions. These consequences are typically borne by others such as tax payers, the unfortunate investor who bought high and lost, and the unfortunate mortgagor who may lose his/her home to the mortgagee.

This is not to say that I am against commission based pay. Commission pay is a wonderful incentive to produce and works very well under regulated conditions such as real estate sales where brokers have very strict guidelines in terms of acceptable behavior. What I am saying is that if a deal sounds too good to be true, it almost always is, and when the house of cards falls down everyone pays the price.

The price being paid is multi-faceted and has a cascading effect. When an industry as large as mortgage brokerage runs into problems, the impact ripples throughout the economy. Some ripples have already started, the most prominent is the loss of a significant number of jobs within the mortgage industry as mortgage brokerage firms close their doors or greatly reduce the number of staff persons. Another is the credit crunch whereby the market has lost confidence in the various investment vehicles backed by mortgage portfolios. Now, even well qualified buyers are unable to obtain a mortgage because funding for new mortgages is less and less available.

Once these events occur, the real estate market slows down with properties taking longer to sell, appreciation slows, and even depreciation takes place in some formerly "hot" markets. When the real estate market slows down, construction jobs dry up, unemployment claims increase, orders for durable goods such as appliances and furniture decrease, manufacturing slows down, more jobs are lost. You get the picture. How far reaching the ripples are is yet to be determined. However, the ripples thus far are considerable and global in scope - the US dollar has fallen steadily against the euro and the Canadian dollar. Some analysts are betting 50-50 on a recession within the next year.

How can these events be an opportunity for appraisers? If history does indeed repeat itself, well-qualified appraisers will soon be in high demand to value not only troubled properties, but to also value high performing properties within an unstable market. The smart appraiser will gear up to meet this challenge head on. To be adequately prepared, an appraiser must be aware of and use available resources, know what information is needed and where to find it, and to keep a finger on the pulse of the economy.

For me, the only way to be prepared and to remain prepared is to be an active member of the Appraisal Institute with emphasis on the word "active." In today's world, it is not enough to just be a dues paying member. A member must take advantage of what those dues buy - basically access to a wealth of knowledge and resources including education, the Lum Library, and other members who are more than willing to assist other members with figuring out the tough assignments. For more information, visit www.appraisalinstitute.org.

Patricia Amidon, MAI, is president of Amidon Appraisal Co., Portland, ME.