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Residential vs. commercial, the widening gap - Professionals vs. ???

I do both residential and commercial appraisals. The gap between how appraisers are perceived, particularly for lenders, has been dramatically widening since HVCC and AMCs. Reporting, reviewing, client perception, etc. have all changed and the gap keeps widening. Commercial appraising has changed very little over the years. The changes in residential appraising have been significant, particularly since 2008.

In this article I look at the past, when appraisers were considered to be professionals, what has changed since then and the future.

Many factors are causing this change - licensing and easy entry, HVCC, AMCs, etc.

Who cares about the past? Appraisers look at the past to understand today's real estate market. Will we return to the past? I don't know. But, it was a model that was successful from when appraising started in the 1930s to the start of licencing.

Changes in getting a trainee job

Prior to 1990 - most appraisers had lender staff jobs

When I started in appraising, in the mid 1970s, at an assessor's office, most appraisers were trained by lenders.

The vast majority of lender appraisals were done by staff appraisers, working 9-5 jobs with full benefits.

There were few fee appraisers. Most were trained by lenders and were typically commercial appraisers, who quit to start their own appraisal businesses. They mostly hired relatives and people they knew as trainees. Or, people with degrees in finance, architecture, etc. English degrees were popular as writing skills are required for commercial appraisals.

There were some residential fee appraisers, who also quit their lender staff jobs to start appraisal businesses.

Most appraisers had college degrees. Some were were able to change to appraising from another department, such as retail lending. I had a college degree as did everyone that I worked with, except for a few who transferred from another job, such as secretarial support.

1990s - licensing allowed easy entry into residential appraising

Whenever any profession or trade is licensed, barriers to entry are much simpler. Everyone knew what was required to "become" an appraiser. The requirements were relatively low, as compared with prior to licensing when there were no set requirements.

I had never heard of appraising when I got my first job. I was a chemist and was tired of working in a lab. I saw an opening for an appraisal assistant position at a California assessor's office that said you worked in the field. I got a book at a library to find out what it was before my interview.

Prior to the early 1990s, trainees

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were typically hired by lenders. Getting a trainee position was difficult as relatively few were available. There were few fee appraisers who hired trainees.

Not many changes in commercial appraising, except for a college degree (new requirement) and specific classes required. Limited trainee opportunities as there are lots more residential appraisers than there are commercial appraisers.

Changes in residential appraiser education and training since licensing

Prior to licensing, there were no specific requirements for appraisers. However, there were few appraisers who had no training or experience. Lenders would not place them on their approved lists. Some were able to shift from selling real estate to appraising.

Today, in many states, there is no mandatory licensing requirement for appraisers. You can just say you are one. However, it is very difficult to get any non-lender work from anyone, as the first question is typically "are you licensed"?

In my local market, a local real estate broker has advertised appraisal services for many years. But, since licensing, he is not able to get much work.

Education requirements varied widely among the states for trainees and licensed appraisers for many years

When licensing started, the Appraisal Qualifications Board only controlled requirements for residential and general certified appraisers.

A few states had no, or minimal requirements to get an appraisal licenses. Other states had specific minimal requirements.

Many states did not license trainees, so there were no requirements until the appraisers wanted to get appraisal licenses.

The AQB now has specific requirements for licensed appraisers and has significantly increased the requirements for certified appraisers.

However, over 20 years has passed since licensing started, so many trainees and licensed appraisers worked with minimal or no requirements.

Outsourcing of appraisal education to proprietary schools

Prior to licensing, appraisers took class from professional appraisal associations, who had very similar classes. Appraisers who viewed themselves as professionals took their classes.

All the major professional associations did not provide education for new appraisers. I was a member of the Appraisal Institute, which sold their educational material to proprietary schools. Their classes were designed for people who wanted to get their designations. I did not refer any new appraisers to their classes as they did not match the requirements for getting licensed.

Proprietary schools were okay, but often focused on filling out forms and passing the exam in the classes. The more advanced classes varied widely in quality of teacher experience and educational materials.

How could new appraisers figure out which schools were good and which were not very good? I never knew myself, as an appraiser with many years of education, training, and experince before licensing. I do know that many were inferior to the professional appraisal association classes.

What about commercial appraisers? Taking classes from proprietary schools was not considered adequate for many who were looking for commercial trainees and that has not changed.

Outsourcing of training from lenders to anyone who was licensed

Learning anything, including appraising, the correct way is always best. It is very, very hard to unlearn and re-learn. Few of us will do it. I still appraise the way I was taught almost 40 years ago. Fortunately, I was well trained.

As an example, I starting taking drum lessons 10 years ago. In contrast, many drummers never took lessons. I asked my teacher how he liked teaching experienced drummers to do it correctly. He said it was almost impossible.

My first drum teacher had recently graduated from college with a degree in music. He was a very, very talented musician and was self taught in piano and drums. He had to completely relearn everything he knew. He was 18 years old and just starting college. I never forgot what he told me.

How could a prospective trainee know if their trainer was competent or ethical? So many new appraisers were taking on trainees that I would not know who would be good to work for.

Back in the 1980s, if you went to a meeting of an appraisal association and told other appraisers who you worked for, you found out whether or not they were knowlegeable and ethical.

What about commercial appraisal? It is easy to check supervisor/mentors credentials and reputation. Not many changes except specific number of hours was required.

Changes in Residential Lender Appraisal Management

Residential appraisal management prior to the early 1990s

Lenders did all the appraisal management, except for a few AMCs, typically affiliated with title companies or lenders. The first AMC was LSI, started in 1969. AMCs had

Residential vs. Commercial since licensing- summary

	Residential	Commercial
Training	Varies widely	Trained by experience appraisers
Education	Proprietary schools	Professional appraisal associations preferred
Licensing req.	Significantly increased	Increased - specific classes and experience, degree **Appraiser selection**
Appraiser selection	Primary criteria - licensed	Reputation, experience, designation, education, license
Fees	Bids (AMCs), a few have set fees	Bids primarily
AMCs	80% of market	Very few AMCs, do few appraisals
Analysis	Scope Creep	No changes
Reviewers	Non-appraisers, software (AMCs)	No changes - experienced appraisers
Art vs. science	Conform to rigid requirements	No changes - Art and science
Professionalism	Declining perception	No changes - perceived as professionals
Property types	1-4 unit residential	All types
The "Zillow effect"	Some effect	None
Professional assocations	Few	Many more than residential

No changes since licensing

Trainee job	Easy only in strong market	Limited opportunities, but available in all markets
Cyclicality of work	Very cyclical	Relatively stable, much less dependent on lender work
No. of appraisers -	Varies widely over time	Fairly stable over time
AVMs	Faster and cheaper than appraisals	None
BPOs	Faster and cheaper than appraisals	Some clients use them

about a 5% market share.

Lenders hired staff appraisers and managed their own fee panels. There were many small to mid-size banks who managed their fee panels.

At the same time lenders were merging, resulting in a few large lenders with large fee panels that were difficult to manage.

The first big change - appraisals outsourced to mortgage brokers in the early 1990s

In the early 1990s, many studies showed that mortgage brokers were cheaper than having loan officers for banks. Their share of the market went from about 5-10% to about 80%.

Lenders still had to put appraisers on their approved lists, but appraisals were ordered by mortgage brokers, who were not regulated. In stark contrast, lenders were heavily regulated as a result of the S&L collapse resulting in FIRREA, which required separation of ordering appraisals from loan officers.

Approving appraisers by lenders was much easier - just look to see if the appraiser had a license. Work samples were often requested as a nominal due diligence.

The "Perfect Storm" in 2008 - appraisal management outsourced to AMCs

Mortgage brokers could not order appraisals. Lenders had done appraisal management for many years. Big lenders had their own "captive" AMCs.

AMCs did not have many licensed appraisers and used computer software and armies of "checkers" and phone callers to do their appraisal management.

The AMC market is very competitive. Fees are important to lenders. How can a lender tell the difference between a "good" and a "bad" AMC? Or, do they care? Lenders look at fee as an objective criteria. Turn time is also important, but can vary widely and is hard to control.

What about commercial? A few AMCs are trying to get commercial appraisals, but experienced appraisers typically just delete the emails or don't return phone calls. I tried one many years ago, but it was too much hassle and I had collection problems.

Residential appraisal reviews - significant changes since 2008

Appraisal reviews have been done for decades. When lenders managed their own appraisals, some reviewed all the appraisals and some did sample reviews. Often the reviews were done by local appraisers. Underwriters also reviewed appraisals using lender guidelines for reviews.

When lenders outsourced ordering appraisals to mortgage brokers, lenders were required to do some reviews.

AMC "reviewing" is very seldom done by appraisers. A few years ago, I interviewed staff review appraisers at a major AMC. There were fewer than 10 appraiser reviewers.

AMCs use unlicensed persons and software programs to "review" appraisals. AMCs work for lenders. Lender review requirements have increased dramatically. The reason is not known. Perhaps it was a response to the 2008 crisis, or maybe not.

Appraisal forms are based on conforming subdivision appraisals, so many, many appraisals don't fit well into the boxes.

The UAD forced more "trying to fit into boxes" with long discussions among appraisers about how to fit their appraisals into the restrictive UAD fields.

Commercial appraisal reviews have had no changes. They are done by experienced commercial appraisers.

Residential appraisal reports and Scope Creep

Back in the mortgage broker days, I kept the lender requirements in binders (later digital copies) so they could be reviewed when doing the appraisal. Mortgage brokers worked for relatively few lenders, so it was easy to keep track of them.

Similar to what happened with reviewing, lender requirements keep increasing after 2008. I have never heard a good explanation.

However, AMCs work for many lenders. It is impossible for appraisers to keep track of their requirements. It is hard for AMCs to keep up with lender changes.

Unfortunately, many AMCs put the requirements of all their lenders into one large list of requirements.

No changes in narrative commercial appraisal reports for many decades, except often all three approaches are not done. In my area, the Cost Approach is seldom done except for new construction. Some lenders are asking for Restricted Reports - lower fee, shorter report, same research. A few form reports are used, but there have been no changes for many years

Residential appraisal fees - significant changes since 2008

Residential appraisers, for the first time ever, now compete on fees.

See the article in the April edition of Appraisal Today for an analysis of what happened - "Should you work for "low fees"? How to adjust to the major restructuring of residential appraisal fees since 2008".

Commercial appraisers almost always compete on fees.

Reporting and analysis requirements since 2008

Residential appraisal reporting requirements have increased dramatically. In the mortgage broker days, 3 comps plus a few comments often worked fine. Some lenders wanted listings.

Now, reports are 2-3 times as long as in the mortgage broker days, with many more comps and listings. Plus, signficantly increased analysis requirements.

The most significant change to me is the "requirement" to support all adjustments. This is not easy even in a conforming tract. This has resulted in fewer adjustments being made, even when they should be made.

No changes in commercial appraising.

Appraising - art vs. science

For residential appraisers, filling out boxes and UAD means that the "art" of appraising is becoming less and less important. For example, finishing an appraisal and thinking: "Does this make sense?" Or interpreting the data and sales.

To me, this is the biggest loss. Why not just use an AVM?

I prefer to use whatever I can do develop an accurate opinion of value. Expired listings, broker surveys, "gut feeling" etc.

No changes in commercial appraising.

Professional appraisal associations

Prior to licensing, there were several long-time national associations for residential appraisers, such as Society of Real Estate Appraisers and National Association of Fee Appraisers. American Institute of Real Estate Apprasiers (residential primarily). Amercian Society of Appraisaers(commercial primarily) and other assocations such as RICS, ASFMRA, and others were for commercial appraisers primarily.

Most appraisers were members of these associations as they were excellent for getting lender work. Many chief appraisers were also members.

Since licensing, the SREA and AIREA merged into the Appraisal Institute, which became primarily commercial as they were more active than residential appraisers from SREA NAIFA membership declined. NAIFA membership declined. Primarily ommercial appraisal associations, such as ASA are still fairly strong. ASA is primarily business valuation appraisers.

What does this mean for residential appraisers? No national professional associations for networking, political influence, etc.

How the "Zillow effect" affects residential appraisers

Why do consumers need appraisers if they can just use Zillow, Trulia, etc? What do appraisers provide? A barrier to getting their mortgage loan?

I have been thinking that this also contributes to the loss of perceived professionalism for residential appraisers.

Commercial: Zillow can't be used to get a "zestimate" for commercial, industrial, apartments, etc. Instead, a real estate professional must be used - real estate brokers or appraisers.

Changes in perception of residential appraiser professionalism

The 80's - residential appraisers "called the shots"

When I started my appraisal business in 1986, real estate agents and others saw appraisers as professionals, not subject to being bullied. Appraisers were respected for their knowledge. Some appraisers were more knowledgable than others, particularly on local markets and difficult appraisals.

With licensing, residential appraisers were increasingly seen as all the same, particularly by lenders.

After 2008, AMCs ordered appraisals. As compared with prior to licensing and mortgage brokers, AMCs knew little about appraisers they hired.

Post 2008, for the public, residential appraisers were blamed for lacking local expertise, etc.

No changes in commercial appraising.

What about the future?

Residential lender appraising has always been notoriously cyclical.

Remember the huge mortgage broker business prior to 2008?

When I started my business, there were few residential appraisers as most had been laid off by lenders in the early 1980s when interest rates were 18%+. I will never forget my first appraisal association meeting in January, 1986. It was packed with appraisers quoting 6 weeks or more turnaround.

There was no licensing. I got approved by a few lenders and could pick through stacks of files of appraisals that needed to be completed.

Since 2008, many long-time appraisers have quit or refuse to do AMC work. Trainees are gone. Most licensees who did not upgrade to certified are gone.

Who will be around during the next big boom? The booms have always been handled by armies of trainees. By lenders hiring before licensing, then by fee appraisers afer licensing. But, requirements for becoming certified have significantly increased. Appraisers are limited to 3 trainees per appraiser.

If lenders continue to not accept trainees signing, there will be few trainees hired. I am predicting that lenders will loosen this requirement, or there will be no one to do their appraisals.

You just have to make it through until the next big boom. The last one was prior to 2008.

Lenders will have to change there requirements. AMCs will compete for appraisers to find anyone to do their appraisals.

If you make a commitment now to getting non-lender work, it will really help during the down cycles. However, you must be willing to turn down lender work when it is very busy to establish yourself in doing non-lender work.

Consider doing non-URAR appraisal work such alternative valuation/evaluation products. They have been around for decades, but many appraisers refused to do them.

What about starting in residential and moving to commercial appraising?

Next month's newsletter will have an article on this topic. I ran out of room this month.

Here are articles previously published in Appraisal Today:

3/13: Commercial appraising - no AMCs, no UADs, higher and steadier income. How to get started.

3/13: Residential to commercial traintion - the three legs to success

3/13: Denis Desaix profile - how he went from residential to commercial

4/11: How to get started in commercial appraising - 5+ unit apartments.

The first two are available on the subscriber web page. Send me an email if you want a copy of the 4/11 article.

Want to do appraisals for lenders but not for AMCs? Private money lending is increasing. No UAD or 1004MC required!!

Many appraisers don't want to do non-lender work such as divorces. It is hard to get started and you may have to testify in court. There is another lender option - hard money lenders. I know only a few appraisers who work for them. I don't know why, especially since AMCs have taken over conventional lender appraisals.

Since 2008, getting a mortgage loan from a conventional lender has become much more difficult for almost everyone.

Private money lenders are the lenders who can close deals in a few days and count on the real estate equity as collateral. They have always been around, mostly for short term financing and borrowers with poor credit or no credit history. On the minus side, for borrowers rates and fees are high.

Because of the recent credit squeeze, more high income borrowers are using hard money lenders for temporary loans until the credit market eases up, particularly for self employed persons.

Many appraisers don't want to work for them as the appraisers see them as "sleazy." But with the recent subprime fiasco, there were many, many conventional lenders who made sleazy deals through mortgage brokers. Compared with them, hard money lenders are often much better.

Who are "hard money" lenders?

They typically match investors with loans, sometimes investing their own money.

Hard money lenders may serve a regional market or may offer loans nationwide. Some hard money lenders are represented by brokers who may take a percentage of the loan (points) in exchange for preparing and submitting the loan documentation (as well as finding a direct lender). Other hard money lenders deal directly with applicants.

This business is very fragmented, from local companies with no advertising to large companies operating in multiple states.

I know of two local appraisers who are doing very well in their private investor lending businesses. They know the value and marketability of the collateral, which is very important.

Individuals and small groups of investors don't advertise. Small firms typically get their money from investors wanting to get a good return on their money and pool that money.

Larger firms rely on bank loans.

Where did the term "hard money" come from?

"It is difficult to find an answer to this question. I've heard plenty of speculation. Some people say that it's because the money is used for "hard to do" loans. Others say it is because the loans are "hard to get" or "hard to pay." It is my belief that it is called hard money because traditionally it has been "real money" in the sense that it is not borrowed. Institutions loan borrowed money, and in this sense they loan "soft money." However, I must point out that things have changed a bit over the years, and these days a good deal of hard money is in fact borrowed. (I would guess as much as 50%.)"

Source: Fairfield Financial Services web site.

Commercial vs. residential

Many hard money loans are made on commercial properties, but more are being made on residential due to the current lending market.

Commercial hard money lending is often used for interim financing, such as for builders. They are much faster to close than conventional commercial loans.

Since they are not regulated and may not require certified general licensing, you may be able to get started in apartment appraising with them, particularly 5 to 15 units. See the "Get started in commercial appraising - appraise 5+ unit apartment properties" in the October 2009 issue of Appraisal Today, available online to paid subscribers.

What types of properties need appraisals?

In today's market more hard money refinance loans are being made on homes because of the difficulty in obtaining conventional loans.

Many hard money loans are made for short term financing on commercial and apartment properties, when conventional lenders take too long to fund.

Land is another popular type, as conventional financing can be difficult to obtain.

Residential property loans are often made for bridge loans, construction, and remodeling.

Many homes that don't "fit" conventional lending, such as rural, large amounts of land, unusual construction, lack of some utilities, etc. need to get private financing.

Changes in hard money licensing and regulations since 2008

Prior to 2008, the Home Ownership and Equity Protection Act of 1994 (HOEPA) regulated hard money loans. "The law addresses certain deceptive and unfair practices in home equity lending. It amends the Truth in Lending Act (TILA) and establishes requirements for certain loans with high rates and/or high fees. The rules for these loans are contained in Section 32 of Regulation Z, which implements the TILA, so the loans also are called "Section 32 Mortgages."

Now hard money lenders are regulated and must be licensed. Reporting requirements have significantly increased. This has been a significant factor for hard money lenders, which tend to be small. I have an appraiser friend who works for a family business that started in the 1940s doing real estate sales and lending. He had to learn about the requirements, get licensed as a mortgage broker, and outsource the complicated reporting requirements.

You may want to learn more about these regulatory changes so you can understand them better before you start marketing to them.

Who gets private mortgages?

The most common borrower for a private mortgage/hard money loan is an individual who has one of three issues that requires them to obtain this type of loan.

The issues are usually because of credit, income, or property type/condition.

- Currently behind on your mortgage payments.
- Currently facing foreclosure or have a notice of default filed against you.
- Have tried to refinance, but have been turned down because of credit or income.
- Need a mortgage loan immediately and are willing to pay more to have it close quickly.
- Trying to finish a construction loan.
- Financing land, commercial property, hotels, motels, investment property.

The loans are typically for a short period of time, such as 6 to 24 months, until the issues can be resolved.

What about appraisal requirements?

No 1004 MCs, no UADs are required.

Many loans are done without appraisals as the investors are considered to be knowledgeable and the lender knows local property values. However, sometimes investors require independent appraisals.

Be sure to ask if there are any special requirements. They don't sell to Freddie or Fannie, and may want you to use their requirements.

You can use whatever report format you want. Fannie Mae forms are okay.

Turnaround times are typically quick as they are short term loans with quick closes.

They prefer conservative appraisals, not high appraisals.

Scope of work - very different from conventional lending

Appraisals for hard money lenders are very different than conventional appraisals. You really need to know how to appraise accurately and be very good at market analysis.

Hard money lenders want to know what the property is worth. Their primary focus is on the current market. Just putting three comps on a page is not acceptable.

You need to know the market the same way a local real estate agent does. What's pending, what's active, how easy will it be to sell the home, etc.

Remember, a high percent of the loans go into foreclosure. You are risking private individuals' money.

What are the borrower's costs?

Interest rates are generally in the low teens and fees can be as high as 5% of the loan amount.

What are appraisers' liability risks?

Be very, very careful to disclose and not overvalue. Hard money lenders rely on the borrower's collateral, not credit. Typically a minimum of 30% equity is required.

They are lending individual investor money, not pooling loans and selling them to Wall Street.

Think of them as loans your mother is making. You don't want her to lose her money.

You want to be sure the investors know exactly what kind of collateral they are lending on.

Delinquency and foreclosures tend to be much higher than conventional loans, as borrower credit is weak, so the value of the collateral is very important.

What about lender pressure?

Your risks for lawsuits are much higher from individual investors. See above.

If you have a lender who pressures you to not disclose defects or overvalue, don't take any more orders from that lender.

To keep their clients, hard money lenders need to be sure their clients invest in properties that are accurately valued and described in the appraisals.

Where to find contact information for hard money lenders

First do a google search for private mortgage financing or lenders and hard money financing or lenders. Search for online directories using private mortgage financing directory and hard money directory. The Scotsman Guide (www.scotsmanguide.com) has many hard money lenders listed, particularly those working in wider geographic areas.

Local hard money lenders can be difficult to find. Most operate only within limited geographic areas because they like to see the properties they're lending against personally and know the area around them.

The best way is to contact local mortgage brokers and ask about the local hard money lenders. I called the broker who I regularly use and she gave me contact information for the hard money lender she provides to borrowers with significant credit problems.

For local companies, look in your local Yellow Page ads or newspaper mortgage listings. Many newspapers have listings that read something like this: "Can't get a loan? Call Us. Private Money Available."

Hard money lending is a very small world. If you're a good, conservative appraiser who provides good service, your name will be passed around.

Residential Cost Approach Part 2 - Reconciliation, obsolescence, sample comments

By Denis DeSaix, SRA

Editor's note: In Part 1, in the April, 2014 issue of Appraisal Today, Denis discussed USPAP, basic components, land value, data sources, depreciation, how to report depreciation on appraisal forms, and other issues. In Part 2, Denis includes sample reconciliation statements for your appraisals and why the Cost Approach does not have to "match" the Sales Comparison Approach.

Summary of important issues (repeated from Part 1)

* The Cost Approach is being required by more and more clients; even in cases where it isn't necessary for credible assignment results
* The USPAP requires appraisers to complete each analysis in a competent manner
* The Cost Approach, even in cases where not necessary and not given any consideration in the final value reconciliation, can be completed and reported without creating a "misleading" report (See USPAP FAQ #290)
* The reconciliation is the section where the appraiser should communicate to the client his/her evaluation and ultimately the consideration given to the Cost Approach in concluding the final opinion of value
* The quality of data (absolute and relative to the other approaches) should be discussed in the reconciliation; the quality of data determines how much consideration the Cost Approach should be given

Functional obsolescence

Functional obsolescence is created when some aspect of the improvement does not meet the market standards. Usually it is caused by a design flaw or due to a component becoming obsolete.

The classic example of functional obsolescence due to floor plan design is a bedroom that is accessed through another bedroom.

Another example (less obvious) might be this: In a community of 2-story homes, the market expectations (the market standard) might be that a half-bath is located on the ground floor (or full bath if a bedroom is on the ground floor). If the subject's design does not include this market expectation, its price will likely be negatively impacted.

In both examples, the market is likely to pay less for the subject with the design flaws than it would a substitute without design flaws.

Since the Cost Approach is using Replacement Cost calculation that doesn't reproduce the subject's functional impairments, the adjustment in the sales grid (the loss in value) is the functional obsolescence adjustment to be applied in the Cost Approach.

External obsolescence

External obsolescence is defined as a loss of value due to influences outside the property (and outside of the control of the owner). External obsolescence is a form of depreciation that appraisers routinely calculate, even when the Cost Approach is not completed. Busy streets, railroad tracks, proximity to non-residential influences may result in a negative market reaction (a "loss in value") vs. non-impaired properties.

Another type of external obsolescence is caused by market conditions (and referred to as "Economic Obsolescence"). Many of us saw the results of economic obsolescence in the recent housing crash: homes were selling for less than their depreciated value.

The adjustment for external obsolescence in the Cost Approach should be related to the location adjustment applied in the sales comparison grid. An important item to remember is sometimes part or all of the externality affects the value of the land; in that case, the site value would reflect that condition already, and the amount attributable to the improvements would reflect the balance.

Summary of important factors

These are just some general examples of how appraisers estimate depreciation. The key take-away is this:

* Depreciation is a loss in value.
* The basic Cost Approach formula is Value = Cost – Depreciation. This formula also proves that Depreciation = Cost – Value.
* Many times, adjustments applied in the sales comparison approach have a corresponding adjustment in the Cost Approach.
* Appraisers are already calculating depreciation adjustments in their typical assignments, but they are not called "depreciation" adjustments; they are called sales comparison adjustments.
* When completing the Cost Approach, an appraiser should ask him/herself, "I adjusted for X in the sales grid… is there a corresponding adjustment to make in the Cost Approach?"

The Reconciliation

The vast majority of residential appraisals (and almost all residential mortgage appraisals) rely on the sales comparison approach to value as the primary valuation method. This is as it should be, since the sales comparison approach best mimics the market dynamics of buyers and sellers… especially owner-user buyers and sellers of single-family homes. Consequently, many of us are very good at reconciling the sales comparison approach, but sometimes we don't adequately reconcile the other approaches.

The reconciliation (or "Final Reconciliation") is where the appraiser provides his or her evaluation of each approach used (or not used), states its strengths and weaknesses, and then synthesizes all valuation analyses into a final opinion of value. It is the persuasive argument the appraiser should make that states: "I relied upon A, B, and C for reasons 1, 2 and 3 to conclude $X as my opinion of value."

Recall that FAQ #290 stated that an appraiser who completes a Cost Approach, but finds the results not meaningful, should address this in the reconciliation. Correctly addressing the strengths and weaknesses of the Cost Approach in the reconciliation ensures that the client understands the Cost Approach results, and understands how the appraiser considered them in the final value opinion.

Summary

Below are some of the main points we discuss in the Cost Approach class I teach.

* The Cost Approach is always applicable for an improved property. By definition, if a property is improved, its value can be expressed by the formula Value = Cost – Depreciation. Consequently, a Cost Approach is always applicable (can be applied) to value an improved property.

Many appraisal reports state that the Cost Approach is not applicable. I recommend that they state the Cost Approach is not necessary for credible results, but don't say it isn't applicable (if it isn't applicable, how can the appraiser apply it credibly?).

* The Cost Approach methodology is always credible. Some reports state that no consideration is given to the Cost Approach because the Cost Approach is not a credible valuation analysis.

Recall the Competency Rule requires appraisers to complete competently any analysis that is necessary. All appraisers who complete the Cost Approach must be competent to do so; otherwise, they need to become competent (and disclose the steps they took to achieve competency) or withdraw from the assignment. I would never want to make a statement in my appraisal report that effectively said, "I completed this analysis, but despite my best efforts, the results cannot be relied upon, because the analysis isn't credible."

The weakness is the data, not the methodology

The weakness in the Cost Approach is not the methodology, but the data. If we had high confidence inputs for cost and depreciation estimates, then we can solve for value. "Value = Cost – Depreciation" is sound methodology. The weakness isn't in the model, it is in the data.

This is true for any approach: When we have exact-matches for use in the sales comparison approach, we have a very high confidence level of the result. But, sometimes when our subject is atypical and no model match exists, we are forced to try to find the next best substitutes, which can be significantly different from our subject.

No one would say that the sales comparison approach isn't credible. Most would say, "These are the best comps that exist, and the value indication is credible based on the best available data".

In the atypical house with few comparable sales, the problem is poor or weak data, not the approach. In the Cost Approach, when estimating depreciation on a 40- (or 75-) year old home, the problem is uncertainty about the data (the accuracy of the estimate), not the approach.

When relying on recognized building-cost services that are based on some rather simple parameters (size, configuration, quality) to estimate the costs an actual "boots on the ground" contractor might bid off of specific plans, the problem is the quality of data, not the approach.

When relying on extraction or allocation rather than actual land sales to determine the value of the subject's site, there is an inherent imprecision to the calculation, the problem is the quality of data, not the approach.

When the Cost Approach is most relevant

Consider when most of the recognized texts or knowledgeable peers recommend the Cost Approach might be necessary for credible results.

Most of the time, the Cost Approach is recommended in two scenarios: (a) newly constructed improvements, or (b) special, atypical, or unusual improvements.

In the newly constructed improvement scenario, the Cost Approach makes a lot of sense; primarily, because depreciation is easy to estimate, and actual cost figures may be available for consideration. In this case, the Cost Approach is recommended because the data is thought to be good quality.

In the atypical improvement scenario, the Cost Approach data is probably no better than the 40-year old home scenario (and could be worse). Nevertheless, the Cost Approach is recommended because the other approaches (sales and income) likely have similar, poor quality data issues. Here, even though the Cost Approach's data is low quality, relatively speaking, its data quality is similar in quality to the other approaches, therefore, it is recommended and may even be necessary for credible results.

Sample Cost Approach Reconciliation statements for your appraisals

Here are three examples of Cost Approach reconciliation statements that communicate to the client/intended user how the appraiser evaluated the Cost Approach's value indication in the final value opinion. Note that each one addresses if the appraiser considers the approach necessary or not.

Example#1: Cost Approach is not meaningful or necessary, but is required and is given no consideration in the final reconciliation.

The Cost Approach is not necessary for credible results; however, it is required by the client and is therefore completed. The subject is an older improvement (actual age 75-years) with excessive wear and tear and some identified repair items; depreciation is difficult to estimate with accuracy.

Within this market, there were no land sales available for a site value estimate. The extraction method is used, but the data are similar, older properties, and depreciation (as with the subject) is difficult to estimate.

Compared to the sales comparison approach, the quality and quantity of data is significantly inferior; given these weaknesses, the Cost Approach is given no consideration in the final value reconciliation.

Example#2: Cost Approach is not necessary, but the result merits some consideration and the client requires the approach.

The Cost Approach is not necessary for credible results; however, it is required by the client and is therefore completed.

The actual age of the improvement is 60-years, but the subject has been well maintained, updated and modernized; its effective age is 20-years and depreciation is estimated with some degree of confidence.

In this market, while there are no current land sales, there are some newer homes (3-5 years old), and a site extraction analysis was completed using these sales. Due to the limited depreciation, the site value indication is considered a good quality data point.

The weakness of this approach is the lack of independent land sales to provide additional validation for the site value estimate. Further, the cost data, while credible, is based on the average for a multi-city area (defined by the first 3-digits of the zip code); this lowers the confidence level of the replacement cost calculation.

Compared to the sales comparison approach, the quality of data for the Cost Approach is inferior; therefore, the sales comparison approach is given most consideration in the final value opinion. However, despite the weaknesses, the Cost Approach value indication is overall consistent with the sales comparison, and provides additional market support for the final opinion of value.

Example#3: Cost Approach is necessary, and it merits significant consideration

The subject is a proposed-construction, single-family residence, with the owner planning to develop and occupy the home. For this assignment, the Cost Approach is necessary for credible results; further, my client has requested its completion.

Within this market, there is new construction activity and a buyer of the subject would consider the option of building new vs. purchasing a newly built home.

The cost data for this assignment is high quality: in addition to the plans and cost-bid documents for the subject's construction, I've also retained in my files costing data from 3-similar homes built within this market and within the last 18-months.

Lastly, I have been able to validate the cost estimates using Marshall & Swift costing service.

Based on its relevance, and the quality and quantity of the data, I've given it equal consideration in my final value analysis as the sales comparison approach.

In Summary

* The Cost Approach is being required by more and more clients; even in cases where it isn't necessary for credible assignment results
* The USPAP requires appraisers to complete each analysis in a competent manner
* While not always necessary, the Cost Approach is applicable (can be applied) to any improved property
* The Cost Approach, even in cases where not necessary and not given any consideration in the final value reconciliation, can be completed and reported without creating a "misleading" report (See USPAP FAQ #290)
* The Cost Approach can be expressed by the simple formula: Value = Cost – Depreciation
* The weakness of the Cost Approach is not the methodology (the model works!), it is usually the quality of data
* National costing sources are recognized and appropriate data sources for almost all residential mortgage finance appraisals
* Site values can be arrived at, even in 100% built-up markets, by such tools as extraction, or if competing markets have land sales, then allocation
* Depreciation results in a "loss in value". Deterioration (physical) or obsolescence (functional or external) result in depreciation
* Most appraisers in every assignment complete the fundamentals of estimating depreciation. Estimating total economic life and remaining economic life is part of estimating physical deterioration. Location adjustments in the sales grid many times equate to external obsolescence. Impaired floor plans that require an adjustment in the

sales grid usually correlate to the functional obsolescence adjustment in the Cost Approach

* The reconciliation is the section where the appraiser should communicate to the client his/her evaluation and ultimately the consideration given to the Cost Approach in concluding the final opinion of value

* The quality of data (absolute and relative to the other approaches) should be discussed in the reconciliation; the quality of data determines how much consideration the Cost Approach should be given

Cost Approach does not have to "match" the other approaches

Finally, some clients (and appraisers) believe that the Cost Approach must "match" or even be higher than the sales comparison approach.

In my classes, participants have told me that clients/reviewers have said to them, "Your Cost Approach is too different from your sales comparison approach; you need to change it and make it come more in-line." Putting aside the fact that such an instruction is a violation of the Appraiser Independence Rule, the request itself is fundamentally flawed if the appraiser has competently completed the Cost Approach and appropriately discussed the results in the reconciliation.

Consider the following: In the reconciliation examples, we have two extreme situations: Example #1 where the data is poor and Example #3 where the data is excellent. In these two examples, how close to the sales comparison approach (and final value opinion) would one expect Example #1 to be? If the data is of poor quality, would the expectation be that the value indication should be similar? If the data is of poor quality, other than coincidence, why would the value be similar? Indeed, if the data is of poor quality, the expectation should be that the value indication will be different, and may be significantly different. This is why, in the case of Example#1, the indicated value by Cost Approach warrants little (if any) consideration in the final value reconciliation. Alternatively, in the case of Example #3, where the data is good (and assuming the sales comparable data is equally good), the expectation should be that the two approaches provide a similar value indication.

I advise appraisers to resist the temptation or instruction to try to make the Cost Approach "fit" with the sales comparison approach. As long as the methodology is applied correctly, it is the data, not the expectation (or desire) that should drive the results. A comprehensive statement in the reconciliation can be used as a reference point for such requests: "I've explained in the report that the data available for the Cost Approach is poor quality, and that's why I did not give it any consideration in concluding my final value opinion. Given the difference in the quality of data, the expectation should be that the results would be different from the sales comparison approach. What you are asking me to do is to massage the data to fit an expectation that isn't consistent with the data. This, I cannot do."

About the Author

Denis A. DeSaix, SRA, is a principal of Metrocal Appraisal, an appraisal and consulting firm located in Northern California. Denis has over 20-years appraisal experience, ranging from mortgage finance, review, litigation support, portfolio valuation, and estate and tax appeal assignments. Denis is an active member of the Appraisal Institute (Northern California Chapter), and of the East Bay Chapter of the Real Estate Appraisers Association. Denis is proud to have served as a United States Marine.

Marketing to Appraisal Management Companies

By Doug Smith, SRA

In 1998, Spencer Johnson, M.D. published the self-help book "Who Moved My Cheese." This book framed lessons about dealing with change around a parable with a story set up that involved mice and cheese.

Over 5 million copies of the book were sold. Now, in any changing industry, old hands counsel with wisdom about how "They Keep Moving the Cheese" and how "The Quicker You Let Go of the Old Cheese, the Sooner You Can Enjoy the New Cheese."

The lending environment continues to change and while most appraisers have put aside reservations about working with appraisal management companies, change is still afoot and there are new issues to consider when setting in motion a viable marketing plan.

Today, appraisers not only have to adopt strategies to take on new clients, but there is a new threat on the horizon. The typical appraisal management company is rating appraisers and becoming more selective. Appraisers must now be mindful of efforts to remain on AMC lists and panels.

For those who decide to "Move with the cheese," there are a series of strategic moves to initiate the process of adding an AMC component to a firm's business profile.

There are also some concrete steps to take to maximize fees and successfully carry out some of the on-going administrative details of dealing with various appraisal management companies.

Lastly, appraisers must be vigilant in the care and maintenance of existing clients and take steps to maintain a healthy relationship.

Back to the business/marketing plan - who is your customer?

Before addressing the entire subject of appraisal management companies and their impact, it might be a good idea to sit down and ask just what your business is, why you are in business, and most of all, who is your customer. Or better still, ask is the client your customer?

The simple answer is appraisers are in the business to provide valuation service to persons who require those services. Appraisers have the education, training and experience to provide this service.

Each State recognizes this background by granting a license or certification. Taken too much for granted or at least not emphasized enough is that appraisers act in the public interest and maintain a high level of public trust.

Is the AMC your customer? If you reflect a moment, you will see the AMC is your client not your customer. The customer is the person that waits for a decision based on the service an appraiser provides.

Marketing overall flows from the economic goals of the business entity, but appraising is not just another business. It lies in the professional sphere that encompasses

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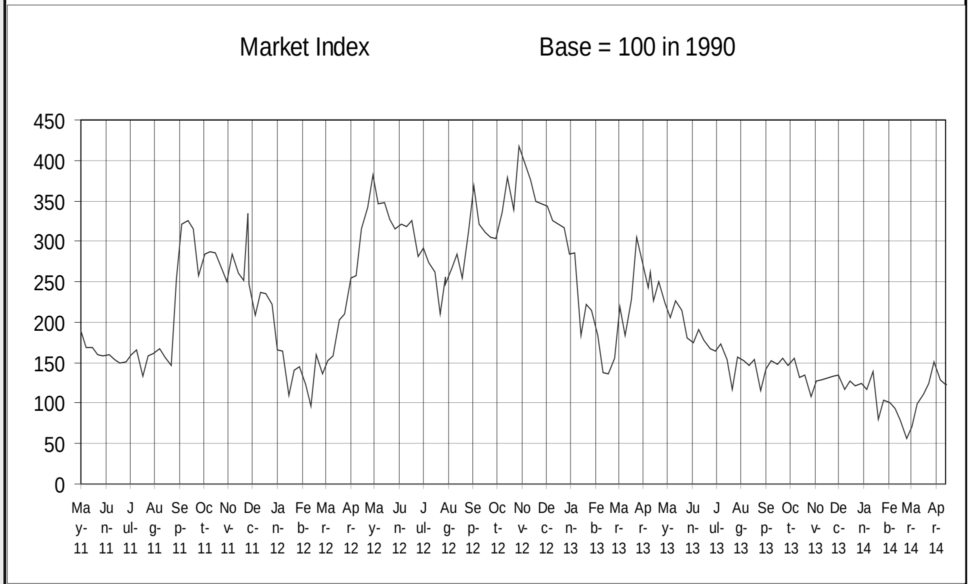

public interest and public trust issues. Thus, any marketing plan must address the issue of the public interest.

Write out your business and marketing plan

To get started, I advocate writing out a marketing plan. Before starting on a marketing plan, there must be a business plan and the heart of this business plan is a mission statement.

Your economic goals involve just what do you want from life for yourself and those you care about, what kind of house you live in, what kind of car you want to drive, how you educate your kids and finally what kind of retirement you want to enjoy when it comes to end.

A business plan is a must before a marketing plan. That is the place to start.

Define your market - customers and clients

Identify your customers - homebuyers, persons needing refinancing, commercial entities, government agencies, attorneys seeking litigation services and estate valuation services for individuals and entities, CPA's seeking taxation valuation support, financial planners.

Decide the set of clients you wish to reach that serve these customers. Decide where you stand on the matter of acting in the public interest. (Does a person applying for a loan with a C-lender who uses an AMC, deserve less than the appraisal service you can provide?)

Recently, I weighed the pros and cons of appraising for companies offering reverse mortgages. In view of the public interest and public trust, I decided to withdraw from this market segment.

Review the economic realities of the market? I maintain the AMC is a market reality. Avoid them if you wish, but recognize it may be at your economic peril.

Your mission statement - business and personal

Write a simple mission statement for your company that allows you to achieve your economic goals while at the same time allows you to sleep at night knowing you are doing right in terms of the public trust that is bestowed on you by virtue of your license and professional status.

For many, it is right to fire clients, to turn away economic realities, to avoid doing business with B and C lenders, to want lenders in suits who pay quickly and never ask questions. I just don't think that is realistically acting in anyone's economic best interest or is it acting in the best interest of the public.

Before setting up a marketing program, look at the big picture of just what the heck it is you do, how you want to do it, what you want out of life and for you and those you care about and how you can do it professionally.

Have a coherent rate strategy - The Retail vs. Wholesale Myth

The formulation of a coherent fee schedule is essential before starting on a process to associate with an appraisal management company.

Many appraisers assume that there is a "retail/wholesale" relationship when considering fees and appraisal management companies strictly adhere to discounted "wholesale" rate schedules.

In reality, appraisal fees are market driven with the typical "ask/accept" or "ask/reject" price settlement/condition mechanism.

Appraisers accept appraisal work based on the price offered and the requirements or conditions of the assignment. Appraisers must be careful not to be hemmed in by a two tier fee schedule. Appraisers must carefully think out their fee schedule more in terms of a range based on a known scope of work framework.

The scope or work of an assignment defines the costs of completing the assignment. Appraisers must carefully think out what may be described as the threshold level of fees that will both capture costs and provide a reasonable profit.

Timing and opportunity costs are also important. It makes no sense for an appraiser to accept fees at the lower end of the range when there are assignments available at the upper end of the range.

However, not all appraisers face an ample reservoir of assignments at the upper end of the fee range. In the process of maximizing total revenue, as long as costs and some profit are realized, it may make sense to accept assignments at the lower end of the fee range.

AMC Fee Schedule quotes

In the sign up process, AMC will likely include a fee schedule form. A recent e-mail sent by an appraisal management company was instructive. It was multiple choices. Would the appraiser agree to accept orders automatically based on current local market fees, or remain on the panel to be contacted on a fee quote basis? The third choice called for the appraiser to decide to withdraw from the panel.

As a general rule, it does not make much sense to quote minimum market fees in these fee schedule quotes unless the appraiser decides to completely throw in their lot with the AMC.

Based on arriving at a range of fees acceptable for local work, it makes more sense to closely parallel fees that the appraisers knows to be the generally accepted reasonable fees for the local market. At the same time, appraisers must be quick to recognize that a legitimate market strategy in any market is to be a low cost provider.

In preparing appraisal reports, there are not many ways to benefit from economies of scale. However, opportunities to increase productivity are available to all appraisers.

Thus, the rationale for positioning an appraisal firm as the low cost provider has to be viewed in a narrow range of options that do not jeopardize the integrity of the appraisal process.

Low cost providers are a fact of life in appraising and appraisers are increasingly faced with a decision to forgo assignments where competitive appraisers minimize profits.

The Three C's - competition, competency, and comparable sales

Consider the dilemma of the typical AMC. The typical appraisal management company is likely to be distant and unfamiliar with the local market. All they know about local appraisers is their license level. If an AMC has clients in a local market for which they have no designated appraiser, they don't have a good source for information about local appraisers.

Appraisers deal from strength. There are three ways an appraiser or an appraisal firm can emerge the market leader in the local market.

1. Competition. The application process for most AMCs is extensive and tedious. Appraisers who are quickly and completely responsive can outdistance the competition. Some appraisers just don't want to do the "paperwork." Increasingly, technology makes the difference. More is going to be asked of appraisers particularly with regards to the electronic transfer of data.

Companies such as ACI and a la Mode offer "e-services" for an extra charge that provide a means of uploading completed reports. Being signed up for such services such as AppraisalPort and being equipped to transmit reports in AI-Ready is a plus.

2. Competency. The AMC has a problem to solve. They must provide a superior product for their clients. It is to the benefit of the AMC, that the most competent appraisers are selected.

This desire is often seen at odds with the fee strategy espoused by some AMCs. Appraisers report a disconnect where appraisal management companies demand high quality, but at low fees.

The soul of appraising is integrity and competency. The measure of these is self-respect. In the end, competency tells and there can be no compromise.

The application process is an opportunity to demonstrate competence with careful attention to details such as the resume and supporting materials.

The Appraisal Institute is increasing its pool of designated residential appraisers (SRA) at a furious clip. I predict more companies will soon emphasize designations, particularly the Appraisal Institute, SRA.

3. Comparable Sales. The reviewers and underwriters who are employed by AMC companies focus on comparable sales. If appraisals are returned for corrections, these corrections have mainly to do with comparable selection or not providing an adequate explanation as to why comparables were selected.

If the comparables are not recent enough or too far away or in some other way do not satisfy the guidelines of the AMC, the report is returned and the appraiser's score sheet is impacted due to having been returned for corrections.

Appraisers demonstrate their competence not by the support for their adjustments, but for the selection of comparables that reduce or eliminate adjustments.

Better appraisers spend more time on comparable selection and explaining comparable selection.

How to find Appraisal Management Companies - The Family Tree

The simple fact is that most appraisal management companies find appraisers. Appraisers must position their firm to be visible by maintaining a website presence and listing in some select directories.

Google is the prime source of referrals which requires a professional website presence. The one most essential listing website is AppraiserUSA.com. The listing is free. Some AMC companies use broadcast e-mail to recruit appraisers. These solicitations are sometimes difficult to decipher because they are often simply spam and solicitations for paid Internet services.

There are two major types of appraisal companies. The first is the captive AMC owned and managed by the lender themselves. To unravel these companies, appraisers have to look to their family trees. Wells Fargo, for instance, calls their AMC, Rels. Bank of America appraisals are ordered by LandSafe. CitiFinancial's in-house appraisal company is Finiti. TSI is the company for Quicken Loans. Most of these have recently quit accepting new appraisers. Knowing the family tree allows the appraiser to approach the local branch office and enlist their support for recommending that the appraiser be added to the panel.

The second group are true appraisal management companies. These handle appraisal work for several vendors. These include companies such a Clear Capital and Solidifi. These companies have a web presence and usually under the list of contacts, the recruitment department will be listed.

The Ten Dollar Solution - AppraisalPort

There is one player gaining an enormous presence on the scene. LandSafe is one company which has shifted ordering and uploading onto AppraisalPort. AppraisalPort represents a new layer of middle men who have responsibility of taking care of the mechanics of ordering and handling the uploading of appraisals.

This represents some cost shifting as fees for handling Fannie Mae work, for instance, run $10.00 per order.

Other clients handled by AppraisalPort include Nationstar Mortgage, Allstate Appraisal, Equity Solutions USA, Title Source, Inc. (TSI), and Union Bank of California among others.

Appraisers seeking to open the door to appraisal management companies should sign up at AppraisalPort. New companies signing up for AppraisalPort, often broadcast solicitations from AppraisalPort and these companies may be added to the user's profile. AppraisalPort claims a monthly volume of 150,000 appraisals.

GAAR™ Glare - FNC's computerized appraisal rules

The group of ex-college professors that started FNC, Inc has introduced a way of analyzing appraisal reports in support of in-house underwriting. More lenders are signing on to this service through AppraisalPort. Lenders are responsive to a method that subjects appraisal reports to the computerized bright glare of compliance and risk rules.

The following is taken from the website: GAAR™ stands for Generally Accepted Appraisal Rules™, a comprehensive series of rules by which residential real estate appraisals are screened for completeness, compliance with rules and guidelines set forth by various regulatory bodies, as well as for tell-tale signs of fraud, overvaluation and other elements representing risk to the lender

FNC has harnessed a vast pool of appraisal related expertise in order to address this critical industry shortcoming. The result is the Generally Accepted Appraisal Rules (GAAR™) themselves, and GAARPort™, the online portal for the batch screening of appraisals against these rules.

The website continues to address client concerns: Key to risk mitigation is uncovering potentially overvalued properties and/or fraudulent appraisals before funding. Often appraisal anomalies are not immediately obvious, so the risk GAAR run cross checks to detect inconsistencies and alert the reviewer to possible problems that may indicate fraudulent appraisal practices or simply a risky lending scenario.

The trend toward computerized underwriting and compliance screening is largely overlooked in the ongoing debate. Appraisers have some catching up to do, to not only understand GAAR™, but to also understand the AI-Ready method of report transmission. A primer on AI-Ready may be found at: https://www.aiready.com/

Working with the AMC - keeping track of communication

As mentioned above, the application process is typically extensive. There are annual reminders about documenting license and E & O insurance renewal dates. For this reason, a separate file for the application work should be kept and a tickler file set up that triggers the filing of updated renewals.

For most AMCs, there is a steady stream of communication that arrives via e-mail. Appraisers will get the impression they are back in Appraising 101 as "Chief Appraisers" bombard with basic appraisal information as well as changes in policy.

This information glut can quickly become overwhelming if the appraiser does not have a system to accumulate the information and have it available to review when working with an order. There is too much information to be included in the typical work order and therefore the guidelines and policies must be accessible to successfully complete the order.

For those who run a paperless office, these communications can be captured in PDF form or by SnagIt™ and filed by vendor. I have good results with EverNote.

Other may find it only necessary to have file folder within easy reach and the information sorted by companies. A partitioned three-ring binder sorted by vendor is handy if several appraisers are in the office and need to refer to the information.

Two-way Communication

As important as policy information and overall vendor guidelines, important e-mail addresses and phone numbers are necessary reference material.

Overall, most AMC companies have knowledgeable underwriters and staff appraisers with whom appraisal problems may be discussed.

The key to good AMC management is communication. Dealing with AMCs demands an extra level of communication when addressing confirmation of appointment dates and delivery dates.

The best strategy is to stay ahead of the curve and not wait to last minute to confirm inspection dates and times and to quickly inform if there is a delay in the delivery process.

Time is of the essence to keep your ratings up

Almost all management companies maintain a rating system. When signing up, one critical step is learning the factors on which an appraisal firm is judged.

LandSafe has a four tier system and lets appraisers know weekly at what level they are. There are three basic topics, quality, timeliness and cost metrics.

The quality section measures quality control failure rate, correction rate, draft not acceptable rate and assignment decline rate. The timeliness rate measures how many times the appraiser meets the deadline and if late, the number of days late.

The cost concerns center on fee increase frequency and average fee increase. This then is a comprehensive look at the entire relationship components. Appraisers must be aware of the weight given to requesting a fee increase.

Of all the measures each appraisal management company applies in the business relationship with appraisers, it is very evident that the primary concern is far and away timeliness.

Appraisers, to maintain a productive and on-going relationship with each company, must apply rigid internal discipline to produce reports on time.

Appraisers also must realize that there are consequences for requesting fee increases. On this issue, it is clearly the best policy to base proposed fee increases strictly on Scope of Work issues with a solid argument made as to the complexity or comprehensive research necessary to complete the assignment.

Should you work for AMCs?

AMC work is not for everyone. But, appraisers do not have to accept low fees where any reasonable profit is non-existent. With good strategy and competence, appraisers can make themselves available for full fee work.

In some markets, AMCs may have difficulty locating an appraiser for a particular assignment. While this is truer for rural appraisers where appraisers are scarce, other appraisers may position themselves to be available for higher fees.

Appraisers also must now be more careful in all that is required to maintain an effective relationship with appraisal management companies.

About the author

Doug Smith has an appraisal practice in Missoula, Montana, and is a certified general appraiser doing both residential and commercial appraising with a specialty in hotel appraising and feasibility studies. He has an MBA from the University of Montana and the SRA designation from the Appraisal Institute. He can be contacted at hotelman@montana.com.

Are Appraisal Fees REALLY Dropping?

By Dustin Harris, The Appraiser Coach

Published January, 2012. Reprinted with permission. Nothing has changed since then!!

There's a whole-lotta-cryin'-gowin'-on-out-there! I subscribe to (and actively participate) in several online appraisal forums. There has been a common theme over the past several years. The common complaint from my peers is that scope is a creepin', but the fees are a droppin'!

Now, I do not think there is any doubt whether or not ‘scope has creeped.' Indeed, unless you are doing no-lender work at all, you are completing much more per appraisal than you ever have in the past. From extra pictures, to additional forms, to more lengthy explanations; the appraisal process simply takes longer now than it did four years ago. Fair or not; that is just the way it is!

The question I want to tackle in this particular article is, are appraisal fees REALLY dropping along with the scope creeping up? I posed this question several weeks ago on a few of the online gossip centers that I actively participate in. Specifically, I asked for hard evidence that could answer the question one way or another. Surprisingly, I found none. Oh, I got plenty of feedback—but no statistics, graphs, scientific studies, or the like. Rather, I received mostly anecdotal evidence. "I used to get paid a bazillion dollars per appraisal when I worked for the local ABC Bank, but now that they use XYZ AMC, I get $3 per assignment." Stuff like that.

I also received a plethora of comments similar to this one, "My fees have not dropped, but my average dollar-per-hour of work has dropped because of scoop creep." To anyone doing AMC/Lender work, this is a no-brainer. I think it would be a rare exception to find an appraiser these days whose dollar-per-hour pay has actually increased over the past four years. Mine has, but I am a ‘rare exception.'

I began thinking about this issue when I received an article from my good friend, Dave Towne in Washington state. Dave writes, "…fees appear to be increasing. I track all orders in an Excel spreadsheet and have seen fees creep up this past year". Of course, that got me thinking, so I did some unscientific, completely biased, one-sided, and skewed to support this article, research of my own. What I found was that Dave is right; appraisal fees have been on the rise (if ever so slightly) this past year. In fact, my average appraisal fee took a slight dip just after HVCC, but has actually been on an almost imperceptible rise ever since!

Again, I am not talking about pay-per-hour here. I get the whole, "My requirements per assignment have gone through the roof" thing. Believe me, I do. What I AM suggesting is that we be careful of our language. To say, "What is required of us on each appraisal is increasing, all the while our pay per appraisal is decreasing," may not be completely authentic.

I was going to close this article, but I am on a roll so…. here's the other thing that drives me nuts. Can we stop using the old line about how we have not received a raise in 20 years and how unfair that is? It is just not true. Sure, we may be getting the same (or a slightly higher) fee we received per appraisal in 1999, but my income has gone through the roof. So has yours—if you are intellectually honest about it. Even after you figure inflation, scope-creep, and the bad economy, we are still making a ton more money than we were two decades ago (maybe not 3 years ago, but definitely more than we were in the 1990's). Why? Better efficiency, increased data access, and HUGE improvements in technology. If you are not doing twice the volume in less time than you were 20 years ago (even with scope creep), there is something very wrong.

Do I think there is room for improvement in our industry? Of course. The purpose of this article is not to discredit those who are calling for reform. Rather, it is my firm belief that if we are to achieve real change, we must at least start with an honest conversation. Let's begin with our language.

Now, go create some value!

About the author

Dustin Harris is a multi-business owner, but he has found most of his success as a self-employed, residential real estate appraiser. He has been appraising for nearly two decades. He is the owner and President of Appraisal Precision and Consulting Group, Inc., and is a popular author, speaker and consultant. He owns and operates The Appraiser Coach (www.theappraisercoach.com) where he personally advises and mentors other appraisers helping them to also run successful appraisal companies and increase their net worth. He is also the Founder and President of Your Appraisal Office (www.yourappraisaloffice.com) which implements some of the systems he has developed to help lower costs and free up time for real estate business owners. He and his wife reside in Idaho with their four children.