

Appraising Through Changing Markets

A Real Estate Program for NAR



NARdotRealtor



nar.realtor



NATIONAL
ASSOCIATION OF
REALTORS®

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Is Your Market on Fire?



- Very low supply
- Very high demand
- But... rising interest rates

But....is your market cooling?

- Days on market spreading out
- List price/sales price ratio widening
- Inspections are back
- Seller concessions
- Free lunch for other agents



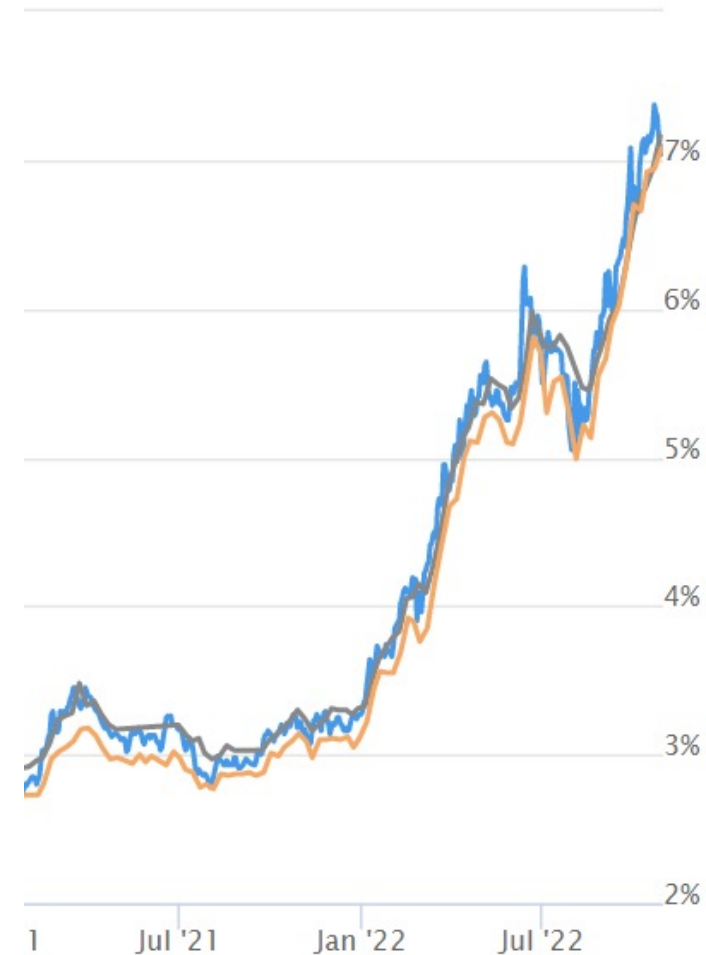
Inflation



- Dollars are worth less
- Consumers feel pinched
- Consumer confidence goes down

Mortgage Rates:\$300,000 30 yr. term

- 3%: \$1264.81
- 4%: \$1432.26
- 5%: \$1610.46
- 6%: \$1798.65



Erodes Purchasing Power

- Borrower that could only afford \$1265/month can now only borrow \$211,000.
- 70% of what they could borrow before

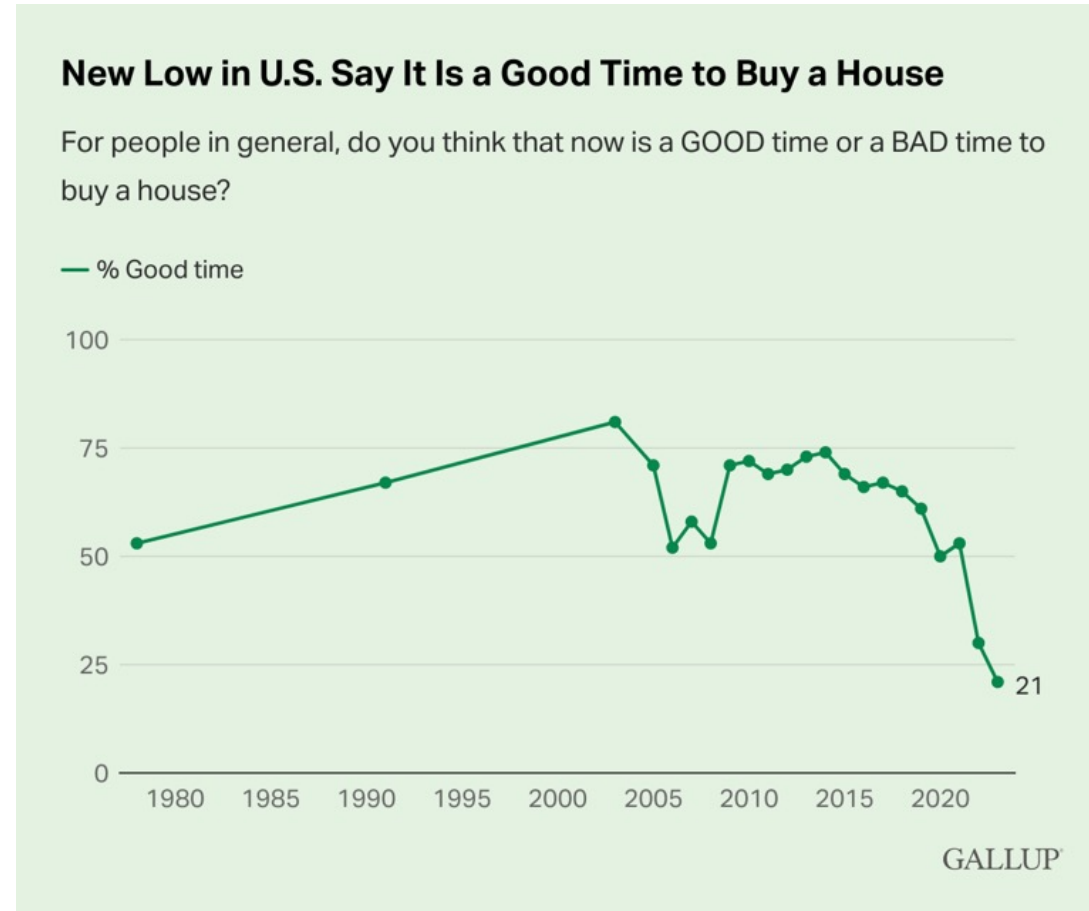


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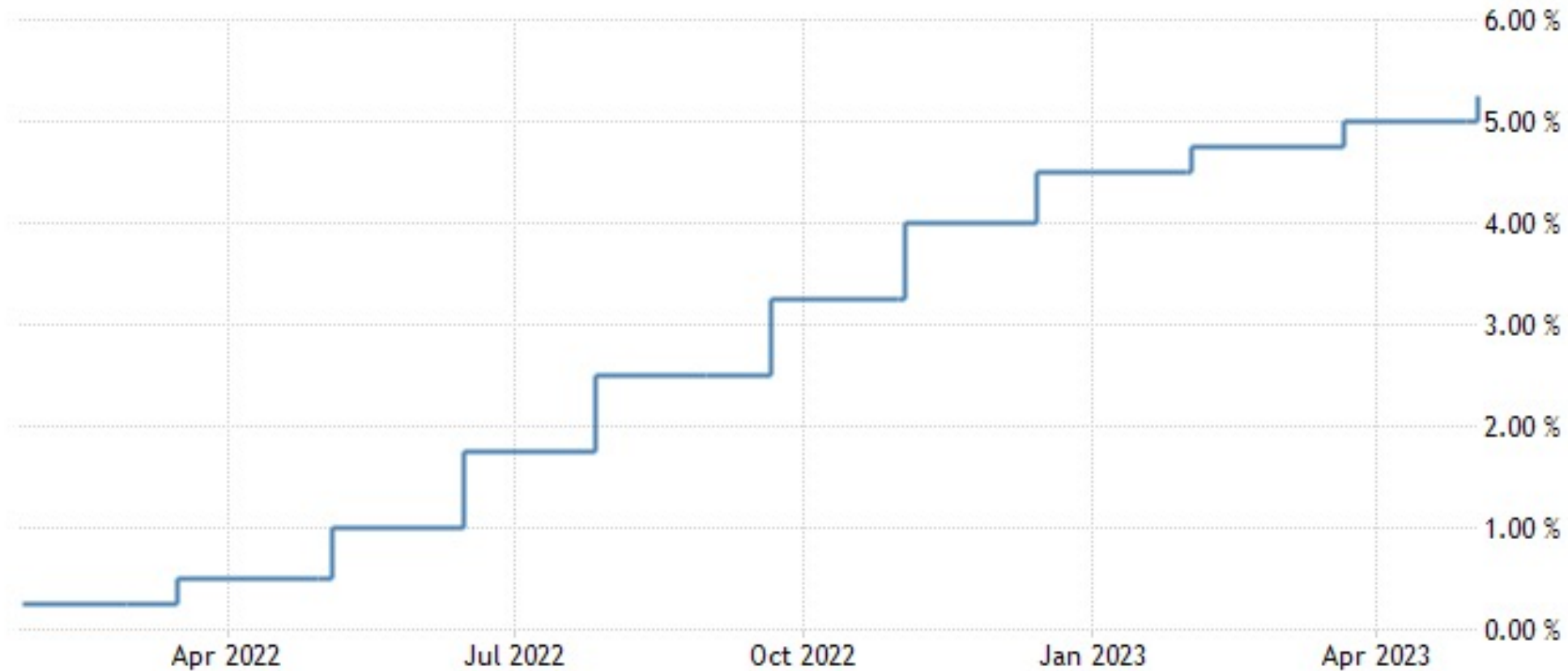
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Latest Poll



Is the Fed Done Raising Rates?



TRADINGECONOMICS.COM | FEDERAL RESERVE

Supply and Demand

- Buyers
 - Still out there
 - Getting more cautious
 - Concerned about rates
 - Some may be thinking rates will come down
- Sellers
 - Know there is low inventory
 - Have to have a place to go
 - May still be getting multiple offers, depending on their price point and the market

Golden Handcuffs



- On everyone who bought and/or refinanced when rates were very low
- WILL THEY TRADE THAT LOW RATE FOR A HIGHER ONE?

You Must Always Analyze

- Supply and Demand
- Any market segmentation
- Days on market
- List price/sales price ratio

Different Parties, Different Roles

- Seller's agent: working to get the seller the highest possible price, and best possible terms
- Buyer's agent: working to get the buyer the lowest possible price, and best possible terms
- Appraiser: working to produce **credible results** for the lender; valuing collateral for a loan

Seller's Agent:



- Prepare a realistic CMA
- Advise sellers of market realities
- Prepare sellers for “Plan B”
- Possibly renegotiate price and terms after appraisal

Buyer's Agent:

- Prepare a realistic CMA
- Discuss negotiation strategy
- Probe for buyer's ability to invest more money, if necessary
- What's the walk away price?
- What's the "Plan B"?



Appraiser:



- Prepare a credible appraisal report with support for value and adjustments
- Intended user: lender
- Intended use: collateral for a loan
- Restrictions include: loan parameters, lender's requirements

Agents and Appraisers

Agents

- Price properties for sellers and buyers
- Usually fair market value for sale/purchase
- Agent's client is buyer or seller

Appraisers

- Value property for client
- Usually fair market value for loan purposes
- Appraiser's client is lender

Comps! PLEASE! No 'apples to oranges'!

Subject



This is NOT a comp



What Should Agents Do? Seller Agent

- Meet appraiser at property
- “Traveling appraiser”? No!
- Stall, call lender
- Have appraisal packet
 - Comps
 - Repair/remodeling list, including when
 - Any comps that should *not* be used
- Prepare seller if *you* also cannot find comps
- Multiple offers: focus on offers from buyers who can bring more money, have fewer contingencies, can close in seller’s time frame
- Prepare a multiple offer worksheet

What Should Buyer's Agents Do?

- Ask listing agent to let you know when and who appraiser is
- Ask to also provide comps at house for appraiser
- If seller agent doesn't intend to attend, see if you can attend
- Have an appraisal packet
- Prepare buyer if you also can't find comps
- Have buyer ascertain 'walk-away' price
- Can buyer compromise on other things?

Appeals and Reviews

- VA is best situation
- Tidewater initiative
- Before appraisal is uploaded, appraiser gives notice
- Gives both agents time to suggest other comparables
- Appraiser should consider and comment on them, possibly revise
- FHA: Stuck for 4 months!
- FHA will not order another appraisal
- Reviews are done for a variety of reasons, by all lenders:
 - Check quality
 - Check comps
 - Check for errors

What is a Review Appraisal?

- Both a review of the original report, **and** a new appraisal report, because under USPAP (Uniform Standards of Professional Appraisal Practice) even if the review appraiser *agrees* with the original appraiser
- Reviews can be done for any/or all of these reasons:
 - Quality control
 - Suspected fraud
 - Suspected incompetence
 - Upon a complaint to the Appraisal Board (if they see cause)

What if there are errors?

- Under Dodd-Frank, any factual errors must be corrected
- Some may not change value
- May indicate carelessness



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Agents and Appraisers

Agents

- Abide by state laws
- If REALTORS®, by REALTOR® Code of Ethics
- Have a real estate license
- May not have specialized appraisal education/training

Appraisers

- Abide by Uniform Standards of Professional Appraisal Practice (USPAP)
- Which is embedded in all state law
- Have a license
- Have extensive education, training

Lenders



- Are all using AVMs
- Are all getting CU reports
- Will know if an appraiser ignored sales in the neighborhood

“Secret” Comp

- Very unlikely
- Open record states—everyone has access to data
- Closed record states: CoreLogic, and Fannie Mae CU are collecting data



If Appraiser Didn't Use Your Comp



- Probably:
 - Out of date
 - Too far away
 - Too dissimilar
 - Size
 - Amenities
 - Site
- Appraiser couldn't verify details of sale

“Typical Purchaser”



- Not the “one in a million”
- But what is typically expected by most buyers in this price range

On the Selling Side...

- When the seller says: “For just the right person...”



PIW: Property Inspection Waiver

- Sounds great to the borrower—no inspection, reduced fee
- But is it as accurate?

Change

- Ever present in real estate
- Must keep your eye on your local market
- Remind your clients that your local market may be very different than what the national news reports
- Q & A

THANK YOU.



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