

APPRAISAL TASK FORCE UPDATE

Dealing With Appraisal Issues In A Slow Market

As we are all aware the last couple of years have been challenging for everyone in our industry. The changes in the mortgage lending industry have brought about significant turmoil in the real estate profession. Buyers, sellers, brokers and appraisers have all suffered through some of the worst times in our history. While we are all hopeful better days are ahead, we must be mindful that appraisals are based more on history than the present or the future.

Generally speaking the acceptable time frame for choosing comps for a residential appraisal is limited to the previous twelve months. Using sales older than that on a CMA will not be productive. There is increasing pressure from lenders to use much more recent sales within ninety days when they are available. We are entering a time period in our market where the available pool of sales is going to be very limited in some price ranges from the next six to nine months. Sales were very slow in the late summer, fall and winter last year. This year the spring season was slow getting any traction. We are to the point where the sales generated by the tax credit of the spring 2010 have aged out and are over 12 months old. As you recall, sales activity slowed significantly in the months after the tax credit expired. It is very challenging right now for appraisers to find current sales in some neighborhoods. The situation is even more difficult in areas where many sales are foreclosures.

To avoid unpleasant surprises in the mortgage loan process when you do get a sale under contract, you need to stay on top of your listings. Everyone needs to be reviewing their listings monthly at a minimum. Updating your CMA's frequently is an absolute necessity in the current market. With so little sales activity, one closing could have a significant effect on the appraised value of a property. If you listed a property last May based on a CMA you did last spring you could be in for a very unpleasant surprise if two closings in the neighborhood in August indicated a very different value for your listing. Those two sales could indicate a much higher value or a much lower value. Either way, that's not the kind of surprise any broker wants to deal with after you have a sale in progress. If the sales indicate a much lower value, you need to prepare your sellers and perhaps adjust the listing price to reflect the current market. If the sales indicate a higher value you need to discuss that with your sellers so they can make an informed decision to either stay with their list price and hope for a quicker sale or raise the list price to avoid leaving money on the table. In the current lending environment, one or two sales can have a significant impact on the appraised value if those sales are very current.

When preparing your CMA's you should also be mindful of other listings which compete with your property. That is much more important now than in years past. Many lenders now require appraisers to include two current active or pending listings in their appraisal reports. Most all require at least one. If other listings are not taken into account when pricing your listings, it could come back to haunt you when a lender orders an appraisal.

Staying on top of current market activity and keeping your sellers informed is the best way to avoid sales going south due to appraisal issues.