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## **Appraising: Homesale Programs Appraisers Are an Important Support in the Relocation Process**

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### **In Brief...**

*There have been discussions among relocation professionals about eliminating appraisers from the homesale process. A proper evaluation should be made before any action is taken.*

In today's global marketplace, proper deployment of an organization's human resources and cost control are critical imperatives for companies wishing to be competitive. Yet, elimination of the appraiser from the homesale process to cut costs is a little bit like a large corporation eliminating accountants or a hospital eliminating nurses. A CEO or a hospital's chief of staff would take this step only if he or she became convinced that the expertise of these professionals was unnecessary or available outside the organization at a similar or better level for less cost.

Elimination of the appraiser from the homesale process is in the testing stage at some relocation management companies; therefore, this is a good time to evaluate whether the appraiser performs a necessary function in the homesale process and whether that function can be performed more accurately and efficiently at less cost by real estate salespeople than it can by professional appraisers.

In examining a question as complex as this, it can be useful to look outside of relocation to other fields, and also to past history, so that past successes can be replicated. In most professions, generalists have lost ground to specialists. One reason for this is the inability of the generalist to keep up with the accelerating rate of change in an increasingly complex world. The generalist usually cannot stay as knowledgeable as the specialist in the specialist's area of endeavor. Of course, there are individuals for whom this does not apply, but would you allow your family physician to perform heart surgery on a family member?

Specialization made the industrial revolution possible. Before Henry Ford's assembly line, an automobile worker was responsible for performing all the steps required to build a car. The assembly line reduced the price of automobiles significantly and made it possible for more people to afford one. Common sense tells us that, by performing a few tasks over and over again, we become more proficient; otherwise, baseball players would not spend so many hours at batting practice and basketball players would not practice shooting so much. So, we find greater specialization occurring in many professions, and the consumer is better served because of it.

Appraisers are specialists on whom corporations rely to estimate the probable selling price of employees' homes. Initially, they were called on for this purpose because employers saw a need for an "expert" opinion. The resulting value opinion is somewhat similar to an auditor's evaluation of a company's financial health. Without a serious audit by a well-respected accounting firm, companies find themselves unable to sell shares of stock on a major stock exchange. Companies that have had financial irregularities due to a lack of proper accounting procedures have seen the financial markets punish their stock severely. Likewise, employers that purchase employees' homes with inadequate information about their value and condition may find themselves paying large amounts in carrying costs, repairs, and improvements.

Today's relocation programs have evolved and are designed to help employers avoid purchasing employees' homes. Clearly, proper pricing of these homes during the marketing process contributes to the likelihood of achieving an amended value sale.

Proper pricing, of course, depends on adequate analysis of the homesale market. The professionalism of relocation appraisers has advanced immensely since 1990. In June 1990, the CRP™ designation was awarded to individuals from a wide array of disciplines within the relocation profession. This encouraged many appraisers to take up relocation as a speciality in order to achieve excellence. In 1991, the ERC Residential Appraisal Report was improved. In 1992, the Relocation Appraisers Consortium (now known as Relocation Appraisers and Consultants, RAC) was formed. RAC has become a think tank for appraisers to discover the methods that will increase their professionalism and to strive to perform the perfect appraisal, which always is just beyond one's reach. It also has given appraisers a voice in the relocation industry.

Then, in 1994, came the greatest invention since the TV dinner, the latest version of the ERC Residential Appraisal Report. It requires the appraiser to conduct several analyses that lead to more accurate results. The analysis of competing listings, for instance, is crucial in helping determine whether the market is becoming stronger or weaker. I frequently find that the homesale market neighborhood or subdivision in which I am appraising is performing differently than the surrounding town or region by applying the methodology incorporated on page four of the ERC Residential Appraisal Report. Page four features detailed analysis of competing listings, supply and demand, historical and current market trends, new construction, REO/foreclosures, employee supplied data, and forecasted market trends.

These advances have enhanced the value of a professional relocation appraiser in the relocation process by improving the accuracy of his or her value estimates. It is expertise not readily available elsewhere.

In spite of the growing professionalism of relocation appraisers, some employers and relocation companies are turning to a real estate sales agent for opinions of value. Home purchase companies should ask themselves the following questions before requesting that real estate agents perform appraisals or broker's price opinions as the basis for a buy-out offer:

**Do real estate agents have the skills necessary to do high-quality appraisals?** They do have many of the skills, but they need additional training to achieve the accuracy demanded by the relocation industry. When I was a real estate agent from 1983 to 1986, I developed a keen understanding of buyer tastes, which was gained from showing hundreds of homes, but I did not know how to do a detailed analysis of the many components of a home and then adjust for these amenity differences. It took about 75 hours of appraisal classes and three years of appraisal work for lender clients before my pricing ability was good enough to perform relocation appraisals.

**Do real estate agents have the time necessary to deliver high-quality appraisals?** Part-time agents may have the time necessary to become trained in appraising. The process would require hours of classroom instruction and time working with a first-class appraiser.

**Are real estate agents willing to be responsible for their sellers' company buy-out value?** This has the potential to cause a major conflict between the seller and the listing agent, which may cause the agent to lose the listing. Agents will want to be compensated for this. If fair compensation were assumed to be the amount of income foregone to perform this service, then the amount would likely be greater than the typical appraisal fee.

**Will transferred employees perceive a conflict of interest if their real estate agent does the appraisal?** While real estate agents in the relocation field have the highest ethical standards, it is reasonable to ask whether the typical transferred employee, who has much less understanding of the

relocation process than we who read *Mobility*, will perceive that the real estate agent may appraise the home a little low to make it easier to sell. The key word here is "perceive."

Under current procedures, it takes some convoluted thinking on a transferee's part to come up with a reason why an appraiser has a conflict of interest. The ERC Residential Appraisal Report clearly tells the appraiser not to appraise the home if he or she has recently appraised the home for another client, or if he or she has some sort of association with the listing company or agent, unless the appraiser can obtain the client's consent. In addition, the appraiser is not to solicit a listing or generate a referral as a result of an appraisal assignment.

Relocation management companies and employers should not rely solely on the answers given above; they should send a survey to their real estate agents with questions similar to those raised above.

Relocation management companies and employees also may wish to consider how real estate brokers might attempt to respond to the demand for appraisal services. It is difficult for a real estate company to offer professional appraisal services. A real estate company wishing to offer professional appraising services could hire experienced real estate appraisers. Clearly, it would have to charge fees to cover the costs of offering this service. These fees would probably mirror those charged by appraisers now. In addition, this appraisal division would run into many conflicts of interest. For instance, assume that XYZ Realty hires three appraisers. This appraisal division would have to turn down all mortgage appraisals on transactions in which the buyer or the seller is represented by XYZ Realty. Consequently, the XYZ appraisal division would find itself at a competitive disadvantage in trying to obtain mortgage work.

As mentioned earlier, the ERC Residential Appraisal Report instructs the appraiser not to appraise the home if he or she has any association with the listing company or agent, unless the appraiser can obtain the client's consent. Therefore, the XYZ appraisal division also is at a competitive disadvantage in obtaining work from relocation management companies. It is most unlikely that an appraisal division would be profitable for XYZ Realty.

For these reasons, it is unlikely that real estate brokers ever will be a source for the same level of expertise available from professional real estate appraisers. It is even more unlikely that they could provide this expertise at a lower cost than appraisers.

So, like the CEO who ultimately decides to continue employing accountants or the hospital chief of staff who employs nurses because to do otherwise would rob the organization of needed expertise or cause it to seek this expertise outside itself at greater expense, employers and relocation management companies ultimately will find they need to keep the relocation appraiser in the homesale process. For the relocation industry to do otherwise will lead to less effective amended value programs, higher carrying costs, and possibly increased employee distrust of the buy-out offer process.

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