

Reprinted with permission of the Employee Relocation Council from April 1998 issue of MOBILITY magazine.

Appraising: Relocation The Myth of the Matchbook Appraisal

April 1998

By Bradford E. Charnas, SRA

In Brief...

Conducting a relocation real estate appraisal requires special skills and training. The extra effort that goes into these appraisals pays off in increased accuracy.

It is interesting to watch people cling to a particular belief, even when they have every reason to know better. Such is the case of "the myth of the matchbook appraisal," which goes something like this:

A "good" appraiser "knows" the value of a home by the time he or she walks through it and could simply write the value down on the back of a matchbook cover. All the rest of the appraisal report is just gobbledygook that appraisers insist on doing to inflate the appraisal fee.

Like any myth, there could be a grain of truth to this one. If the subject property is a tract home in a sea of similar homes that sell in a narrow price range, if the appraiser has inspected a number of them that have sold recently, and if the market is stable, then a relocation appraiser could make a reasonably accurate estimate of the anticipated sale price at the conclusion of the inspection--but, we do not.

The truth is, in relocation appraising, the appraiser rarely sees a tract home in a good market. Typically, such homes enjoy high demand and sell long before an appraisal is ordered. When homes do not sell quickly, it often is because the market is weak and a more careful analysis of supply and demand is needed. Finally, the typical transferee does not own a tract home--he or she owns a highly customized home that requires much more careful analysis.

A companion myth is the belief that appraisers charge "by the page" for appraisals and that reducing the number of pages will reduce the fee. It is easy to see how this myth originated--the fee for a bank appraisal is lower than the fee for a relocation appraisal, and the only visible difference is the form. The truth of the matter, however, is the form is not the culprit. The difference in the fees arises from the difference in the nature of the assignment, not the form.

There are two primary elements in an appraisal: the development of the value (the inspection, research, and analysis) and the reporting of it. The overwhelming majority of a relocation appraiser's time is spent on the development of the appraisal and subsequent servicing issues, not in completing the appraisal report.

The amount of time spent in developing an appraisal varies greatly, depending on the type of assignment. For example, there are "desk" appraisals wherein the development process involves nothing more than looking up the local tax assessor's description of the property and rendering a value estimate based on the assumption that the county's description of the property is correct, that the home is in average or typical condition, that it has a typical floor plan, and that there are no adverse off-site influences.

In some areas, the simple assumption that the home is still there is a major leap of faith. The amount of time spent developing a desk appraisal is highly limited. So is its level of accuracy. It does not

matter what form the appraiser uses to report the value conclusion, the level of accuracy always will be poor.

The development of a "drive-by" assignment is somewhat more involved--at least we can verify that the home actually exists--but we still do not know anything about its decor, interior condition, dimensions, or floor plan. The amount of time needed to complete the assignment greatly increases, as does the accuracy and the fee.

On full mortgage appraisals, we are asked to confirm whether or not the sale price or the owner's estimate of value is reasonable based on recent sales. By comparison, on relocation assignments, we are expected to accurately anticipate what a property will sell for at some time in the future. Because the financial well-being of the employee and the employer is at stake, the relocation appraiser is expected to maintain an average variance of no more than 4 percent and to be within plus or minus 4 percent of the sale price at least 65 percent of the time. That marks a dramatic increase in the level of accuracy required for relocation assignments.

This higher level of accuracy arises from the greater level of research and analysis that the relocation appraiser employs. The ERC Residential Appraisal Report is used to report the process the appraiser used to develop the value conclusion. It does not matter what form the appraiser uses; as long as the amount of research and analysis remains the same, the fee will remain the same as well.

In fact, trying to use a "bank" appraisal form to report the results of a relocation appraisal actually can create more work for the appraiser because he or she must write special addenda to discuss issues that normally would have been discussed within the body of the ERC form, including forecasting, interior decor or appeal issues, and recommended repairs or redecorating.

Asking an appraiser to use a form other than the ERC form is often taken by the appraiser as an indication that the level of research and analysis expected of him or her has changed as well. This can result not only in a lower fee but also in a lower level of accuracy. Recent experiments with using bank appraisal forms in lieu of the ERC form have confirmed this.

During the 1997 Relocation Appraisers and Consultants (RAC) conference, Larry Ingram of State Farm Insurance Companies, Bloomington, IL, related his company's experiences using the Uniform Residential Appraisal Report (URAR) form in lieu of the ERC form. He reported that, although there were initial savings on fees, resale losses soon began to dwarf the savings on fees. The company has since switched back to using the ERC form.

By the same token, simply using the ERC form does not ensure that the appraiser will perform the full process a relocation assignment requires. A representative of a major relocation management company has confirmed that the appraisers on their approved list have an average variance that is nearly half that of the off-list appraisers selected by the transferees, even though both use the ERC form. The difference in accuracy is attributed to both the skills of the "list" appraisers as well as the level of research and analysis they employ.

In addition to the valuation process, there are a variety of "service" issues that differentiate the relocation appraisal from other types of appraisal assignments. Relocation appraisers are expected to be available on very short notice, even during periods of high demand when they are backed up for several weeks. They are expected to give their relocation assignments a higher priority than the rest of their clients.

Speaking as someone who performs both mortgage loan and relocation assignments, our approach in making appointments for the two is quite different. Of paramount importance to our mortgage clients is that we finish the appraisal as quickly and as inexpensively as possible.

As a result, we find it necessary to more or less dictate to the borrower or seller when it will fit into our schedule to inspect the home. If we let others dictate our inspection schedule, we would not be able to meet our required turnaround times and fees.

In a relocation assignment, service to the transferee is of paramount importance, and the relocation appraiser is expected to see the home at the convenience of the transferee, even if it leaves some unproductive "dead time" in the appraiser's schedule.

The professional relocation appraiser is sensitive to the stress that the transferring family is experiencing and takes extra time to interview the transferee about improvements made to the home, about items of personal property, about what attracted the transferee to the home and to the neighborhood, and to answer the transferee's questions. As a result, the relocation appraisers I know spend more than twice as much time during a relocation inspection than they do on a mortgage loan appraisal.

As part of the relocation assignment, we must budget a significant amount of time to answer "the other appraiser said" questions, as well as the transferee's questions and appeals (within reason). We are expected to do all of this in a professional manner, even when the transferee's appeal often is more of a generalized attack on the appraiser than a legitimate question.

Relocation appraisers are required to accurately predict the amount of market resistance to a variety of aesthetic and environmental considerations. Years ago, urea formaldehyde foam insulation was of great concern, and was quickly followed by asbestos, electro-magnetic radiation from high voltage lines, radon gas, and now synthetic stucco. Some were media-driven "fads" that received a great deal of attention initially and then faded away. Others were quite serious. Fad or not, they have a strong impact on resale values and must be considered carefully.

Above all else, the two elements that differentiate the development of a relocation appraisal from other types of assignments are forecasting and comparable sale verification.

Forecasting. Relocation appraisers are asked to accurately anticipate (forecast) what the subject property will sell for in a given period, not simply to state what it was worth on the date of inspection. Forecasting is a special skill that is unique to relocation appraisals, and the process requires much more detailed research and analysis of the supply and demand situation, average marketing times, seasonal influences, and fluctuations in employment levels, than does any other type of residential appraising. It is this tool that enables us to achieve the higher level of accuracy that is demanded of us.

Comparable verification. This involves interviewing someone who has been inside each of the comparable sales and is familiar with the terms of the transaction. This interview process is the only way to determine the interior condition and decor, financing, terms of sale, special features, and buyer/seller motivation. This information provides the 'fine tuning' that enables relocation appraisers to achieve the level of accuracy expected of them.

Next to the property inspection, comparable verification is the single most time-consuming step in the relocation appraisal process. It also is the single most important contributor to accuracy, yet it is the least visible to the client.

Everyone seems to be searching for ways to speed up the process and reduce costs. Can we compile reports more quickly and less expensively? Of course. The question is, what do we cut out and what effect will it have on the overall cost of the relocation?

The quickest way to speed up the appraisal process is to eliminate detailed comparable property research interviews--to the detriment of the employee and employer alike. The increase in accuracy that results from this extra effort is something we should be striving to ensure, not discourage.

The problem with these "myths" is that, if we believe in them, we may make decisions that are contrary to our best interests. Organizations such as ERC and RAC, as well as individual relocation management companies, have spent years elevating the skill and professionalism of relocation appraisers. After all the progress that has been made, to allow our obsession with speed to degrade the appraisal process would be truly regrettable.

Bradford E. Charnas, SRA, is president of Charnas & Associates, Brecksville, OH. He currently serves on the board of directors of the Relocation Appraisers and Consultants (RAC) and is the immediate past chairman of Cendant Mobility's Appraiser Advisory Council.