



TRAINING TIP OF THE WEEK

LOW APPRAISAL CHALLENGES in a strong Seller's Market

This intense seller's market is being greeted with skepticism and disbelief, both by the real estate industry (who remembers all too well the falling home values that occurred just over a decade ago) and buyers who are advocating for lower purchase prices. In addition, appraisers are becoming increasingly conservative in order to meet the demands of an equally conservative lending industry.

What is fueling the incline? Improved unemployment numbers & low interest rates are creating many more qualified buyers, but a shortage in available home to buy, the competition is fierce, resulting in an increase of sales prices.

So, what could be wrong with this picture? We have an industry heavily burdened by financial failure, and while geared for profit, is governed by risk management – i.e., appraisals, mortgage insurance and underwriting guidelines. Retooling the real estate industry for an inclining market is like trying to change an ocean liner's course with a canoe paddle.

MULTIPLE OFFER DILEMMA: Twenty-five buyers see a newly listed and well priced property come available to the market. Due to the shortage of quality inventory, all buyers set up showings on day one, and twelve submit competing offers, some with escalating clauses in an attempt to put their “best foot forward.” All offers are over asking price. The seller must now choose, which typically results in selecting the highest offer with the fewest contingencies. This open, multi-offer environment is the best and most accurate means of determining MARKET VALUE for any property. But... **Market Value ≠ Appraised Value.**

If the purchaser is using financing, the lender orders an appraisal of the subject property to determine if the contract purchase price can be *supported* by area comparable properties. A lender will lend based upon the lower of either the purchase price or the appraised value. **Logically, an appraiser must look BACKWARD's in time** to find comparable properties, ideally properties sold within the last 90-180 days and within close proximity to the subject to use as a basis for value. In a market with sales prices accelerating at a fast rate, this can make appraisers jobs exceptionally challenging, and complaints are starting to come in from appraisers frustrated by the lack of support and professionalism from their Realtor® peers. Realtors® must remember the following:

- An appraiser's process is governed by guidelines which are intended to help determine a market-supported value, using adjustments to comparable properties.
- During an inventory shortage, comparable pickings are slim, making it difficult to support the purchase price of a high-quality property or less common property type.
- Use of older comparables lowers reliability creates other significant problems, as past sales would have occurred at a much lower market value.
- Appraisers CANNOT use active/under contract listings.

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THE SOLUTION?

Since it's safe to assume that the appraisal standards won't be changed to correct this obvious deficiency, let's talk about some practical suggestions...

1. Realtors® need to prepare their clients (on both sides of the transaction) for the possibility of low appraisals due to the current market.
2. Low appraisals may create the danger of a loss of buyer confidence in the transaction. Buyers must recognize that a low appraisal does not always mean that they overpaid for a property.
3. Buyers should be prepared for the possibility of bringing extra money to closing to account for a discrepancy between purchase price and appraised value.
4. When comparable sales are lacking and therefore a low-appraisal is anticipated, savvy sellers should consider negotiating a contingency plan as part of the initial purchase agreement (passes at least part of the liability of a low appraisal to the buyer).
5. Realtors® need to hone their creative skills to keep deals together (while still maintaining professional lines of communication with the appraiser).
6. Realtors® should work with loan officers to identify multiple financing scenarios for their clients, which take into account an appraisal that may come in at or below the purchase price.

According to the
National Association
of Realtors®, more
than 1/4 of offer
prices are higher
than the appraised
value.

Why should buyers endure the challenges that come with seller's market? Buyers who find themselves navigating these issues in a purchase will most likely realize in time that they had purchased an appreciating asset. We must all pick our poison. Considering the historically low interest rates and home affordability, some may choose the pain of perseverance over the cost of waiting. Realtors® should remain prepared to help them through this process.

Message from the Association Exec...

It has become painful to watch our amazing agents work through the many challenges of the current market environment. Most are rising to this challenge with displays of exceptional professionalism. Unfortunately, it's also driving behavior that is out of character. Fighting with peers and appraisers, use of inappropriate and derogatory language, hurtful and baseless accusations and unnecessary criticism. It's disheartening, given that our smaller Realtor® community is known around the state for our cooperation, kindness towards each other and overall professionalism. I read once that ***"the aim of a disagreement should not be victory, but progress."*** I encourage all Cache Valley Association members to evaluate their own behavior and processes, making changes if necessary, to better represent their clients, the Association and the industry as a whole.

Sincerely,

Emily Merkley, Chief Executive Officer