

SACRAMENTO BUSINESS JOURNAL

November 10, 2006

EL DORADO PLACER

SACRAMENTO YOLO

VOL. 23, NO. 35

FOCUS: RESIDENTIAL/CONSTRUCTION

APPRAISERS DEFEND THEIR TURF FROM COMPUTERS

Experience helps many fend off challenges as housing market slows

STEPHANIE FLORES | CORRESPONDENT

Computers have helped create some jobs, replaced others and changed the face of entire industries. But computers can't tell you if a home's backyard is pristine or choked with weeds.

For that — and to assess its effect on a home's value — you still need the human touch, residential real estate appraisers say.

The computerization of residential real estate valuations is just one of the challenges those in the business have faced the past decade. With the recent slowdown in the housing market and an oversupply of young trainees in the business, experienced residential appraisers also find themselves assessing their place in the industry.

Most appraisers say that the computer-driven automated valuation methods, or AVMs, serve a purpose in the market, providing a quick and inexpensive tool to justify low-risk loans in areas where homes share similar characteristics such as floor plans and square footage. This leaves more detailed, analytical work and complex appraisals to the professionals.

But the past surge in the real estate market created an oversupply of trainees. As the market slows down, some in the business say, the less experienced and lazy appraisers will be weeded out.

Residential appraisers should expect to see more computer automation and more complex jobs in the future, said Robert Frazier, chief appraiser for Sacramento-based CoreLogic, which offers appraiser services and computerized tools to detect collateral risk and fraud.

"I'd tell a young person today to take more classes, join professional organizations and learn everything you can," said Frazier, who is based in Vienna, Va. As



CHARR CRAIL | SACRAMENTO BUSINESS JOURNAL

Elk Grove-based Amy Parker says automated appraisals miss what only the human eye can see.

jobs become more complex, the industry will need more analysts and "deep thinkers," he added.

AUTOMATION'S EFFECTS

The advent of AVMs has pushed routine valuations toward the more-automated methods, but also has created niches for experienced appraisers. For example, some appraisers take work in litigation, reviewing computerized appraisals and analyzing projects for developers. John Ashworth of Ashworth Appraisal Services, based in Auburn, said AVMs didn't change his business as much as he initially thought.

"There (has) always been talk about com-

puters putting us out of business," he said.

Amy Parker of Elk Grove, owner of Appraise It Today, said AVMs replaced some work, but also not as much as she initially thought. About three years ago, banks asked for two full appraisals on homes priced at more than \$700,000. Now, she said, they are using one full appraisal and one computer-generated value.

AVM company First American Real Estate Solutions in October hit 250 million valuations since it started counting three years ago. The Santa Ana-based company tracks mortgage information on more than 2,800 counties and sells valuation services, including four of its own AVMs. Rob

APPRAISERS | Recent housing boom responsible for oversupply of young trainees

Walker, an executive vice president with the company, said AVMs haven't replaced appraisers as much as they have created more work in real-estate valuations. For example, automated valuations have led to direct-marketing campaigns for lenders. If a lender wants to target customers for refinancing business, it can pre-screen its target market through a large batch processing.

"An appraiser wouldn't even have been in the ballpark because of money and because of time," Walker said.

Appraiser Parker adds AVMs are only as good as the data you feed them. Once, she came across a home that an AVM had overvalued by \$50,000 because the machine didn't know the home had holes in the walls and an electrical tower in the back yard. Appraisers interviewed for this story agreed that AVMs work best for condos or a standard tract home where sales data exists for surrounding and similar property.

"Last year you could easily derive a value in Elk Grove when 15 of the same homes were sold around the same time," Parker said.

One of the biggest drawbacks to AVMs, Parker said, is that they don't take into account housing supply, but rather look at the sale history of similar homes. There are some neighborhoods with a lot of inventory, which affects value, she added.

That is a valid criticism, said Walker of First American—AVMs look at historical data and not demand. However, he added, his AVMs use a statistical analysis in concert with sales of similar homes, so the estimates don't reflect only a similar-sales approach.

"It is rare that the appraiser takes into (account) the supply side of the equation," Walker said. "That is the exception rather than the norm."

HIGH SUPPLY, LOWER DEMAND

Experienced appraisers say the recent housing boom helped create an oversupply of young, under-trained appraisers in an industry that has historically been heavy with family-run operations but has seen more large regional players lately. In addition, there is a lack of mentoring for young appraisers that used to exist in family businesses, and that's creating some "fly by nights" during the recent housing boom, Frazier said.

The California Office of Real Estate Appraisers grants four license types, including one for trainees. Statewide, the number of total licenses has doubled the past 10 years to exceed 20,250 this month. A decade ago, trainees accounted for 10 percent of all licenses; for the past three years, trainee licenses made up 35 percent of the total, said Tony Majewski, acting director for the state office.

Even without the challenges of technology, experienced appraisers for years have faced broker pressure to come up with the "right price" for a property so a deal will go through. A young appraiser trying to build a business, however, might be more tempted to fudge numbers, said Loretta Bowlin, who opened Bowlin Appraisal Group in 1976 in El Dorado County.

"In most small businesses you are supposed to make your customer happy, but we can't go into it with that frame of mind. We have to give a good opinion of what this property is worth," said Bowlin, who is now based in Sacramento and works with her daughter.

Most of these pressures come from brokers' offices rather than lenders, appraisers say, because lenders are highly regulated. For that reason, appraiser Ashworth of Auburn said, only about 15 percent of his clients are brokers, those he trusts. The rest, he said, are lenders and other consulting

jobs. "If I turn down work because I won't come up with the 'right number,' I know the broker will just go out and find someone who will."

Bowlin said: "We've lost clients because brokers are results-driven. For a young appraiser supporting a family, the pressure can be very strong."

RESPONDING THROUGH SPECIALIZATION

The slowdown in the real estate market has led to fewer transactions. In response, appraisers have found ways to diversify their client mix by increasing their competency and the complexity of the jobs they do. For example, some experienced appraisers have found work supporting litigation or analyzing real estate prospects for developers.

As technologies have made jobs more efficient, standard appraisal fees haven't gone up much in the past 15 years, so appraisers need to look toward specializing and taking on more complex work, Frazier said.

"Real estate is unique," Frazier said. "When you find that unique (parcel), you need to be prepared, qualified and ready to take on that challenge."

Business for appraiser Parker is down from two years ago, with some seasonal spikes around the home-buying summer season.

Ashworth said he has seen work slow down the past year, but slow from torrid back to a normal pace.

"I have been busy, but not insane," Ashworth said. "I used to turn down work almost daily, but that's not the case now."

When the market slows, there might be fewer transactions but lenders are more careful about the ones that do go through, said Frazier of CoreLogic, which provides fraud-detection services as well as AVM services.

"From our standpoint, there is a converse reaction and a greater number of problem loans," he said. "When business is slow, lenders are going to look at every deal, and more loans are looked at (with scrutiny). Our business has strengthened even though loans have declined."



'When you find that unique (parcel), you need to be prepared, qualified and ready to take on that challenge.'

Robert Frazier
chief appraiser,
CoreLogic