Article published Sep 17, 2006

THE NATION'S HOUSING

Cooling market challenges appraisers

BY KENNETH HARNEY
WASHINGTON POST WRITERS GROUP

In cooling real estate markets, it's the hottest question: How do you value a specific piece of property when local home sales are down 20 percent to 40 percent from last year, inventories of unsold homes have ballooned by 200 percent or more, and all the trend lines are pointing negative?

It can be tough. Traditionally, real estate appraisers focused heavily on sales of similar properties -- "comparables" that closed in recent months -- to make their valuations. But that doesn't work well in markets that had been superheated -- prices rising at 1 percent to 2 percent a month -- but are now stalled out or falling.

It also doesn't work well in markets where recent closed sales prices often were inflated by incentives provided by sellers to buyers -- contributions to closing costs, for example, "buydowns" of mortgage interest rates, and other sweeteners not always on the public record.

"It's getting pretty dicey out there," said John D. Bredemeyer, a residential appraiser and spokesman for the Chicago-based Appraisal Institute, the largest professional group for the industry.

"Just looking at historical data can be perilous. You've got to open up the window and see what's really happening now. You've got to answer the question: 'Where are we in this cycle?' And you've got to factor that into your valuation."

Some mortgage lenders and relocation companies now expect appraisers to examine a wide range of data that they never emphasized during the boom years. Gary Crabtree, owner of Affiliated Appraisers, based in Bakersfield, Calif., says that besides the traditional "recent comps," he now factors in at least eight other types of data in reaching the current valuation of a house:

- Pending sales under contract.

- Current listing prices of houses in the area.

- Market supply and demand.

- Length of time unsold on the market for current listings.

- Price reductions or increases on current listings.

- Notices of defaults and notices of trustee's sales.

- Known concessions provided to buyers to facilitate sales.

- Personal interviews with realty agents on what they're experiencing with sellers and buyers.

Even some of these factors can be tricky, however. For example, Crabtree said in an interview, some realty agents increasingly are playing what he calls "the re-list game." Because multiple listing system data reveals how long each property has been on the market, agents with unsold houses now sometimes cancel the listing -- take the property off the market for a short period of time -- and then list it again with a different price and MLS code.

"Now the house no longer looks like it's been sitting dead in the water for months on end," said Crabtree. "It looks like a new listing," and it's reported in that misleading way in the data that appraisers use to gauge the overall market.

Crabtree said one house he tracked was first listed last October at $299,900. It sat unsold for 122 days. Then the listing agent pulled it out of the system briefly and brought it back as a new listing, but this time at $269,000. When it didn't sell in 30 days, the agent again yanked the listing and reported it as a new one with an asking price of $259,000.

Currently the house is on the market for $229,000, "but it's still not selling."

Crabtree, who holds the Appraisal Institute's prestigious SRA (senior residential appraiser) designation, also is constantly on the prowl for concessions that may have puffed up the price of houses he's using as one of the six to nine comparables for any appraisal.

"There's just a tremendous number of them out there right now" -- some of them under the table and tough to detect -- "but they've got to come off the valuation."

In other words, if the recorded contract price on a pending or recently closed sale is $395,000, but the seller is kicking in $25,000 in concessions, the value of the property for comparable purposes is $370,000.

Another emerging challenge for appraisers in cooling markets: Some relocation companies and lenders are asking them not only for current market values, but forecasts of where the property value will be in the coming 60 to 120 days.

Crabtree does that by feeding all the realty data at his disposal into a computer spreadsheet program to produce a linear regression "scatter pattern" chart showing the most probable valuations during the months ahead.

Lately, Crabtree's scattershot trend lines have been pointing down. But like most experienced appraisers, he knows that real estate moves in cycles. Booms typically have been followed by corrections -- but not busts.

The unanswered questions twisting in the wind: Where exactly are we in the current correction phase? And when do prices stabilize and move up again?

Ken Harney's e-mail address is kenharney@earthlink.net. Washington Post Writers Group