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Appraising the appraisal and looking forward into 2012 - Market volatile or stable?

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Well here we are in 2012 back to the day-to-day deadlines, but busy and growing in a variety of different business sectors. I recently attended a day long course entitled Appraising the Appraisal, which in some respect has precipitated this article. The primary point being is that we are now entering a more complex appraisal environment based on the additional scrutiny and review of each submitted appraisal. Most institutions now require third party reviews on all commercial appraisals over $500,000. Whether this third party review is completed internally or externally, the submitted reports now have another layer of review that will result in a more timely and critical approach to our collective end product. The Interagency Appraisal and Evaluation Guidelines dated December 2, 2010 is now policy for lenders and their underwriters, and as part of our competency provision, appraisers are responsible for its contexts and contents. I also suggest that the text material - Appraising the Appraisal - second edition published by the Appraisal Institute be reviewed by professionals involved in our industry. The publication contains very relevant suggestions and samples of what we as practitioners should be incorporating into our appraisal reports and, what reviewers are focused on when undertaking their review of our final work product.

As for the reports themselves, I have noted several recent concerns upon my appraisal reviews for various lending institutions or internally with my associates. My primary opinion is that we are not clearly addressing the appraisal process or problem, nor carrying that thought process throughout the applicable sections of the report. I quote: "the purpose of the valuation process is to solve a problem - that is, to develop an opinion of Market Value or some other type of value (leasehold, minority interest, etc.) or to reach another conclusion concerning the real estate under valuation." As such, it is beholden to the appraiser to communicate the premises, data, reasoning, and opinions that are part of the valuation process. In certain instances, this point is not being conveyed in a concise or responsive matter especially when the subject asset is not a "cookie cutter ." The additional layer of reduced fees and compressed timelines further complicates the appraisal process and communication of the appraisal problem. Also, the scope of work may vary and should be validated prior to the acceptance of any engagement. In any case, the quality of our end product needs to be consistent with the scope of work and market evidence in rendering an accurate and valid value opinion.

As lending increases for most asset classes and interest rates continue to remain at all time lows, commercial and multifamily appraisal needs will continue to escalate. In fact, during 2011 commercial loan originations were reportedly 98% higher than in 2010. This trend is expected to continue into 2012 resulting in higher loan-to-value ratios, compressed cap rates, and the appearance of new construction lending; a segment that was virtually non-existent in 2010/11. The CMBS issuance, still at relatively low levels, continues to rise and reached $32.7 billion in 2011. As such, more aggressive underwriting will re-emerge adding more pressure to the value opinions sought within our appraisals.

On the economic front, recent trends support a more bullish outlook with the December and January private sector employment growth contributing to a positive decline in the high unemployment rate. Fourth Q 2011 GDP growth was the highest in six Qs at approximately 2.8%. The forecast for 2012 is reportedly 2.1%, but unfortunately not sufficient to notably enhance the sub trend employment gains.

The European sovereign debt crisis and political gridlock in D.C. will continue to play a role on the U.S. economy and equity markets. The aftermath of the recession and slow pace of job recovery continues to moderate consumers' spending patterns. Low inflation remains in check, but rising oil prices and lagging housing market conditions continue unabated.

Fortunately, NYC has emerged as one of the strongest markets in the country supported by positive job growth and limited new construction. All points indicate that NYC will remain one of the most active investment segments in 2012. This, coupled by investor confidence in commercial fixed asset real estate, will provide a viable platform for our real estate and appraisal industry.

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