



## **September 2017 Index**

- **2017 E&O Insurance Update - where to get E&O insurance, state board complaints - your biggest risk, etc. Page 1**
  - **What's happening in state and federal appraisal regulations? Statute of limitations, Evaluations, AVM QC, Appraisal Waivers, Etc. Page 6**
  - **Geocam Pro - get augmented geo data in your smartphone photos by Wayne Pugh Page 11**
  - **Horror (& Harhar) Tales from the Field (aka War Stories from beginners, veterans, and ancient valuers) by Barry Bates Page 15**
- 
- 

## **Is the Traditional Appraisal Process Becoming Obsolete?**

**By George Dell, MAI, SRA, ASA**

### **I. Introduction**

We could have a problem. The appraisal process as we know it was invented mostly in the 1930s for 1930s problems. It initially focused on the cost approach. This was sensible. Cheap land meant any improvements formed most of the usefulness. Data was difficult, but most real estate people knew their town, and knew the buyers and sellers. A visit to the county recorder's office turned up any other sales that might have slipped by while "verifying" the information.

Things changed. With rising land costs, particularly after the 1950s, the sales comparison approach began to dominate the residential markets, and the income approach made the most sense for comparison of investment properties. The residential MLS books became widespread, with 'comparable sale' updates coming out every three months. Non-residential data we still got "the hard way."

Things changed. We got computers, the internet and the electronic MLS via a telephone modem at 60 beepity bps. Income properties got printed data sources. And better analysis of income statements -- going from paper calculations and ledgers to electronic accountants' spreadsheets - which could quickly add, subtract, multiply and divide a bunch of numbers. Input data became better.

Appraising got easier, they said. But other things changed. We used to own our data - but no one came to buy the data because it was shared. It all came from a world of *data scarcity*. Today appraisers buy the 'canned' software. They fill in the pre-prepared forms in carefully ordered spreadsheets. But they still pick comps. They still make adjustments. They still apply rates and ratios from the comps and the adjustments. Appraisers still provide "an opinion of value." Not obsolete here .

..

## **II. Behind the times?**

If the traditional "process" is becoming out-of-date, there must be an explanation for it. What might be the cause?

There are two ways something can become less useful. The product may change in a negative way, or the world around it changes. The world around it may simply no longer need the service or product. Or, perhaps the service/product itself has changed to where it is less useful. Let's look at each of these two possibilities.

Has the product itself changed? Most would answer yes. But has it changed for the worse? Let's look.

Offhand, it appears the appraisal product has changed for the better. It has gone from a pencil and paper summary on a page or two, no pictures, perhaps with measurements on the subject and a quick summary of three or four 'comparables' with a 'trust me' type of conclusion. With the advent of the two original professional organizations -- the former SREA and the AIREA, statements of ethical behavior, as well as competence became a part of the appraisal function - leading to signed certifications touching on assumptions and conditions. Some of these became "Standards" alongside the assertions of ethical conduct.

If I recall correctly, "Scope of Work" was not a part of the standards until the 1980s. Although in the office where I worked, we did do scope of work statements because it made sense, clarified client expectations, and followed the path of other professions.

Market analysis began to gain importance with an excellent course from the Appraisal Institute, shortly after the merger of the SREA and AIREA, taking hold particularly for development and absorption situations in the 1990s. However, for residential appraisals, time adjustments were mostly "not allowed." The emphasis was on 'recent' sales, because subjective large upward adjustments had been abused. This was a repeat of the DCF (discounted cash flow) method. It was used, abused, and then disallowed because of the abuse. "Kill the tool, not the misuse."

I began teaching my theories about time-series analysis at the end of the 1990s. The idea being that disciplined time adjustments, properly modeled, are one of the easiest adjustments to calculate - and can greatly improve the overall reliability (sureness and trueness) of the result. The underlying economic principle is simple: "all boats rise with the tide." While the tool and pretty graphs drew the most popularity, the focus in the Valuemetrics "Stats and Graphs" classes was on the modeling. The real value came from the appraiser's *modeling* expertise. What created a reliable and accurate price index was the educated appraiser using the *right model*, not just anyone using a clever tool!

I encountered frustration with organizational, regulatory, and quasi-governmental edicts on this topic. A friend convinced me that I should just start teaching my "price indexing" "econometrics" "statistical" "graphical" methods and tools on my own. Reluctantly, I did. My extensive graduate-level education in these fields helped a lot. These included mathematics, statistics, econometrics, finance, GIS, and even computer programming -- all motivated by one question: "how can this apply to valuation?" I had no idea that this multi-disciplinary subject-matter-oriented over-education would later be called "data science." Data science had not yet been invented. But it was the inevitable response to "big data." Data science combines computation, cognition, and subject-matter expertise. It solves problems in a world of *data overwhelm*. I had inadvertently stumbled upon the future of valuation.

This future involved the coming of AVMs (automated valuation models) and other non-appraisal products which more easily adapted to market needs (like cheaper-faster). AVMs and BPOs (broker price opinions) and 'evaluations' met the needs for 'faster' 'cheaper' but less creepy-scoped than the fixed forms and fat narratives licensed appraisers delivered. Market needs changed, even as appraisal reports may have improved in detail, words, tables, pictures, graphs, and explanations.

So -- the second way a product can become obsolete is that the market need changes. This usually implies that another product begins to meet market needs -- better, or faster, or cheaper, or . . .

### III. How do we look at ourselves?

It appears that our appraisal product has been affected in both ways:

- 1) The product changed;
- 2) Market needs changed.

How has our appraisal product changed? I have no doubt that our product has gotten **better**. The data is better, the tools are better. And perhaps even appraiser's judgment is improved. Given a fertile data field, it is harder to pick rotten fruit.

Has the appraisal product gotten **faster**? It appears that with the better data and software, the speed should be faster, perhaps much faster.

However, analysis and reporting protocol also have grown. Residential loan reports grew from perhaps three pages, to a dozen or two pages.

Commercial appraisal reports have also grown as word processing and spreadsheets and embedded maps, pictures, and plats - and extensive 'boilerplate' expanded to meet the scope creep. Recall that scope creep creates creepy scope, by delivering *safe*, but unneeded and even irrelevant presentation. An example of this are extensive regional and neighborhood descriptions, local history, chamber of commerce promotionals, and other tomes wholly irrelevant to current prices, trends, and market conditions.

Has the typical appraisal become cheaper? In the thirty five years I have done this stuff, fees have increased just over fivefold. It seems that narrative reports have seen a similar increase in price. My knowledge *of house prices* is that they have increased roughly tenfold, more in some areas, and perhaps less in others.

So the result is that the appraisal product has become better, cheaper, and about as fast as before. This raises the question: Is it better because the product is more useful? Or is it because the inputs and tools are better?

I have to conclude that the appraisal output product has not changed (and this is my main point). It is still a point value. It is still based on subjective input (pick comps), and still derived through subjective "opinion support" and "proving adjustments." Most adjustments are mathematically unprovable and not calculable. It is not possible to magically create objective results from subjective or anecdotal data input. *Please -- "trust me; I know a good comp when I see it."*

The traditional data selection process is both anecdotal and subjective.

This leads to Rule #1: The Impossibility Theorem:

#### **"You can't get objective output . . . from subjective input."**

I do (subjectively) conclude that our output today-- our opinions of value -- are better than opinions 10, 20 or 40 years ago. This then leads to our second

change possibility: that needs for appraisals and market expectations for valuation product have changed. It does not matter that USPAP requires the appraiser to be 'objective.' The only requirement is that the objectivity be subjectively 'credible.'

Market expectations for appraiser-generated reports do not seem to have changed much. Flexibility of work scope is not well accepted. There has been *some* acceptance that "less than a full-blown" report is ok. The USPAP "restricted" report is often accepted as a reduced-analysis alternative. (Even though there is specifically no reduction allowed in the development phase of Standard 1, which requires evidence in the appraiser's workfile).

#### **IV. Obsolete appraisal practice?**

Yes and no.

"No" in that appraisers deliver what the market expects. In fact appraisers are judged on the scope of their work exactly by that metric - the "expectations" of intended users.

Clients expect a point value, regulatory compliance, and fill in boxes.

Form an opinion, 'support' that opinion, and pretend that you can magically 'prove' an adjustment, whether for a feature, an income ratio, or neighborhood trend. There is still a market for the traditional appraisal -- a subjective point value 'supported' by subjective data selection, and impossible/improbable adjustment calculations.

"No" in that appraisers are judged on client expectations and peer's actions (what everyone else does).

Well, what everyone else does is pretty much standard: a point value opinion, and words and numbers to support that opinion. This, even as Standards Rule 1-4 requires "analyze ... to indicate a value conclusion." In my mind, "*analyze to a conclusion*" is quite different than "*support my opinion.*" Appraisers are still doing what the market expects.

The market still expects the traditional product. No reliability or confidence measure, no objective data selection, no reproducibility, no objective ability to mark-to-market, and no real input into the real need: collateral risk analysis, investment prognosis, or balance-sheet value, and certainly no real-time (current value, mark-to-market) revaluation service.

The market for the old, subjectively based, supported-opinion continues to exist.

There is only one remaining question: Will the appraisal product grow and thrive in a big data, data science world? Is a "trust me" -- "trust my opinion" product obsolescent?

What part is yes - obsolete?

Market needs are for risk analysis. Collateral risk. Investment potential. Annualized revaluations. Reproducible analytics. Objective portfolio inputs.

The need is for objectively-based data input, replicable work, and verifiable results. The traditional appraisal process is just that, a process. It's outdated, declining in usefulness, and not helpful in preventing the next economic crisis. So much more is possible. So much opportunity.

*The mission we might consider:*

**“Appraisers: Helping Prevent the Next Economic Meltdown!”**

### **About the author**

George Dell MAI, SRA, ASA, is a recognized authority on applications of predictive methods to asset valuation and risk/reliability issues. He has authored numerous articles, seminars, and is a co-author of the Appraisal Institute book "Appraisal Valuation Modeling". George is CEO and chief instructor for Valuemetrics, Inc., which provides a curriculum of hands-on workshops for appraisers and lenders.

For more information, go to [www.valuemetrics.info](http://www.valuemetrics.info) and [www.georgedell.com](http://www.georgedell.com) .

Sign up for his very interesting weekly blog postings at [www.georgedell.com/blog](http://www.georgedell.com/blog)

---

## **What's happening in state and federal appraisal regulations? Statute of limitations, Evaluations, AVM QC, Appraisal Waivers, etc.**

*Source: Appraisal Institute Webinar July 27, 2017. Advocacy and the Residential Appraiser (First webinar in the Residential Information Series)*

*Editor's notes: the webinar was primarily for AI members, so it included what the AI is doing and did not mention other associations for federal laws and regs.*

*The AI (and at least one of the predecessor organization) has had a Washington office keeping track of legislation, attending meetings, and writing comments for over 20 years. The AI is the most active, with 3 full time employees in their Washington office, which monitors federal and state regulations affecting appraisers. ASA has had a lobbyist in Washington for some time.*

*State regulations have been very active. The webinar discussed AI efforts*

*and working with state AI chapters. Although not discussed I assume the AI also works with state coalitions at times, as they are very active in some states.*

### **Who were the speakers?**

Bill Garber, Director of Government and External Relations and Scott W. DiBiasio, Manager, State and Industry Affairs. Both from the Appraisal Institute.

The moderator was Woody R. Fincham, SRA, AI-RRS, The Trice Group, Vice President, VA Regional Manager, Charlottesville, VA

### **Who attended the webinar?**

Per the poll,

#### **What is your focus?**

- Mortgage 62%
- Litigation 8%
- Appr. mgmt. 15%
- Tax 3%
- Other 12%

#### **Where do you work?**

- Sole proprietorship 62%
- Staff appraiser 14%
- Other 24%

#### **What about federal regs?**

No one knows what will happen with federal regulations relating to appraisal, such as Dodd Frank, etc. The White House can change some regs on their own, but others require congressional approval or have complexities making the timing uncertain.

Almost all the issues directly affecting appraisers have been around for awhile. Laws and regulations move slowly in Washington if Congress is needed to pass them.

The only clear federal issue directly affecting appraisers is a proposal by the Appraisal Subcommittee to set up AMC registry assessing fees of \$25 per licensed appraiser that an AMC uses. There is some concern that AMCs will pass through the fees to appraisers.

There is some discussion of appraisal regulatory modernization. Setting up a national licensing, similar to mortgage brokers that connects to state regulators with a standard portal.

Some discussion of changes in appraisal thresholds and loan exemptions, appraisal fee disclosures to borrowers, evaluations, TRID appraisal fees, etc. Some AMCs, particularly captive AMCs (owned by lender) are disclosing fees.

Some discussion in the agencies of AVM Quality Control Standards, but no formal proposals have been released. GSEs are aware of the discussions and FHFA, their regulator, would be involved.

### **Freddie and Fannie**

Appraisal waivers are an issue, as they are doing it differently. Fannie recently added purchases to waivers, following Freddie. Appraisers don't want to see a "race to the bottom" where they compete on fees, turn time and risk management.

### **FHA and VA**

FHA safety issues particularly relating to use of ladders. FHA not allowing trainees is from the HERA act requiring certified appraisers.

VA has turn time issues in some areas of the country. A draft bill has been introduced to allow the use of 3rd party persons to inspect the subject, such as a trainee.

### **Federal "Big Picture" Wrap up**

Suggestion that appraisers "be better than the model" a very high bar for appraisers, in some cases unrealistic. Today, the client has much of the information the appraiser has. The "old days" of only appraisers having public records info (remember the microfiche) is gone. This is not part of what appraisers contribute. End users are looking for market analysis and "eyes on the ground" from appraisers, less boilerplate and more support for value opinion.

Mortgage lending digitization is increasing. Many sectors such as title are speeding up. Some are saying residential appraisals are not moving forward fast enough. Appraisers need to pay attention to this.

Don't see the current environment as a win/loss such as appraisal waivers. Instead focus on the investors and end user.

### **State issues**

2017 was one of the most active and productive legislative years for the 9 years that DiBiasio has been on the AI staff. The AI monitored and responded to over 100 state bills in 30+ states in coordination with AI chapters and other stake holders, with many of interest to residential appraisers.

The webinar discussed issues that the AI has been involved in. The AI uses

a sophisticated tracking system to follow state regulations and sometimes knows about them before the local appraisers. Also, they inform states about what other states are doing and help make the state regulations consistent.

(Editor's comment: I was involved in the AI state legislative committee in the past, soon after licensing started. We relied on our state lobbyist to keep up with the regulations. At that time the national AI was not as involved with the states. You need someone to keep track for you.)

### **State statute of limitations laws**

There are existing laws in KY, NC and SD and new laws in MN, OR, TN. Some laws also apply to disciplinary actions in TN and UT. More action is anticipated in 2018 and the AI is working with other state chapters. TN is 3 years. MN and OR are 6 years, to match Realtor's record keeping requirement.

These laws limit the time during which the appraiser can be sued to no longer than the USPAP's 5 year record keeping requirement. The AI was expecting opposition from trial lawyers and bar associations, but none ever materialized.

These laws limit the time, following the completion of an appraisal, when an appraiser can get sued. They are mostly for court claims such as negligence, misrepresentation, etc.

The reason for these bills is residential appraisers being sued for appraisals some as long as 15-20 years ago, mostly frivolous lawsuits, for mortgage loans gone into default. Entities bought the rights to sue appraisers, not the mortgage paper itself. They get retrospective appraisals to discover any deficiencies, regardless how minor.

These laws allowed for suing the appraiser when the alleged defect is discovered. But, appraisers are only required by USPAP to keep files for 5 years generally, so it can be very difficult to defend themselves.

Most of these lawsuits were rejected by the courts, but some were settled so the appraiser did not have significant defense costs.

### **Evaluations**

Change state appraiser law to allow appraisers to perform evaluations when a USPAP-compliant appraisal is not required - primarily mortgage lending work. Most state laws do not allow licensed appraisers to provide non USPAP compliant evaluations where a market value is required.

Existing laws in GA,IL, IN and TN. New laws in FL and VA.

Per the AI this is "leveling the playing field" with other non-appraiser service providers. There are 12 categories of loans that do not require a USPAP compliant

appraisal, including loans under the \$250,000 de minimus and business loans under \$1 million. Fannie, Freddie, FHA and VA are not subject to these requirements and some of their loans do not require a USPAP compliant appraisals.

Appraisals are also not required for such banking activities as portfolio monitoring and workouts. These services are being provided by real estate agents, CPAs, internal bank employees, etc. Interagency banking guidelines from over 20 years ago allow evaluations.

There is significant demand for evaluations. There is an estimated 3-4 times the number of evaluations done as compared with appraisals.

Per the AI, appraisers doing evaluations will "enhance the 'public trust' by providing competent and qualified service providers. Who is better to provide these services than a trained, qualified appraiser?

This topic is very controversial and has been around for a long time. However, with lenders looking for appraisal alternatives and wider use of AVMs and data, it can be a good business opportunity for residential appraisers.

### **What does this mean for you?**

Individual appraisers can have much more influence on state regulations and laws than on federal issues. What is your state going? How does it compare with other states?

Keeping track of what Freddie, Fannie, FHA and VA is also good so you can get ready for the changes. Also, you can send emails and letters about what you like and don't like in proposed changes.

Join your state coalition. If you don't have one, start one. To find yours, go to [www.voiceofappraisal.com/state-coalitions](http://www.voiceofappraisal.com/state-coalitions).

AI's quarterly "Washington Report and State News" is useful. Google Appraisal Institute and the report name to find it online.

Call or email the AI Washington office if you know of any new proposed state regulations or have questions. They may be able to help.

There are lots of resources at [www.appraisalinstitute.org/advocacy](http://www.appraisalinstitute.org/advocacy).

---

## Geocam Pro - get augmented geo data in your smartphone photos



By Wayne Pugh, MAI, CRE, FRICS, CCIM



If you're looking for a way to quickly document pertinent information on your appraisal photos or videos, Geocam Pro may be just what you're looking for.

Geocam Pro by Wazar is a leading geo photo and video application for smartphones (iOS and Android). The application uses augmented reality to show a layer of geographical information on your screen and the captured photos. Augmented reality is taking the actual reality (your photo) and adding in computer generated information to make it more meaningful.

For instance, appraisers will find Geocam Pro's geographical data helpful in documenting a photo's or video's GPS position, compass orientation, pitch, roll, and altitude. Geocam Pro also measures the distance to and height of objects in the camera view.

Geocam Map links the photos and map markers on a map to reference your photos and marked locations.

### **The Main Screen**

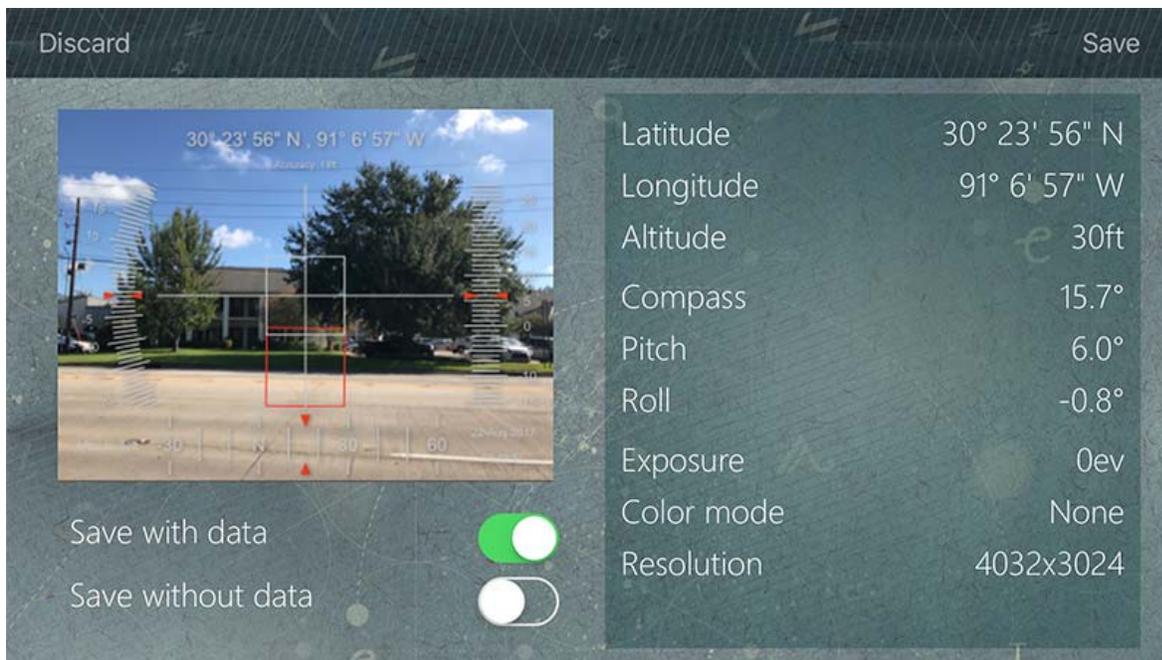
Geocam Pro's main screen gives you information about your device's bearings. It assures you stay level or measure inclinations via a set of gauges that appear on the camera preview as an overlay. The photo appears along with the geographic data. Options to Save or Discard the photo, and Include or Exclude the geographic data with the saved image are also provided.

The main menu can be accessed by tapping the icon located in the bottom right corner of the screen. The icon appears after tapping the screen. There are three main menu choices to set options for the Camera, Geography (Maps), and various Settings.

### **Geocam Pro Pictures**

All Geocam Pro images have an extra layer of geographical data such as GPS position, compass orientation, pitch, roll, altitude, etc. This data is added to the EXIF metadata and can selectively be drawn on images as an overlay. Geocam Pro pictures can be seen and shared from your phone, or exported to Google Maps or to Google Earth.

The data can be saved as part of the image or separately with the images metadata.



## Geocam Maps

Geocam Pro essentially offers two ways to look at the world around you. First you can view through the lens of your camera with a layer of extra information. Or, you can view through the Geo Markers and Pictures that are linked to the map view.

Geocam Maps can be opened from from the Main menu - Geography - Maps, or from the Marker list. The user can choose a map to view where the user can click on any Geo-Marker to view the linked image or information on the Map.

Geocam Maps identifies your current position, the direction you are looking and a scale that helps you evaluate distance to objects on the map. Your photos are identified with a camera icon that identifies the location of the selected image or marker data on the map. Clicking on any icon will display the details for the photo or marker data.

Geocam Maps also identify Geo Markers with the red marker icon. Clicking on these icons will also display the detail information stored with the marker.

## Measuring Distance and Height

Geocam Pro can help appraisers evaluate the distance to any object with the triangulation feature. Geocam Pro can also measure its height once the distance is known.

## **Conclusion**

Geocam Pro is a valuable application providing photography with a geographic data overlay, integration with maps, and measurements for distance and height. Appraisers can even watermark their photos with their business logo. Try Geocam Pro for yourself and experience the power of augmented reality in a user friendly application.

## **Notes**

This article is written to describe the Geocam application loaded on an iPhone. The application also can be loaded on Android devices, but the user will notice slightly different functions.

Geocam Pro can be purchased at the iTunes App store for \$3.99 or \$2.99 at the Google Play store.

## **Developer's website:**

<http://wazar-apps.com/geocam/app.html#>

Their website includes complete descriptions and instructions for Geocam Pro.

## **About the author**

R. Wayne Pugh is a past international president of the Appraisal Institute, former Chair of the Louisiana Appraisal Board, and the current CEO of R. Wayne Pugh and Co., a real estate valuation and advisory firm he founded in 1975 in Baton Rouge, Louisiana.

Mr. Pugh also heads Software for Real Estate Professionals Inc., and is a principal member of Real Estate Counseling Group of America ([www.recga.com](http://www.recga.com)), a national organization of analysts and academicians founded by the late William N. Kinnard, Ph.D.

---

# Horror (& Harhar) Tales from the Field (aka "War Stories" from beginners, veterans and ancient valuers)

By Barry Bates

[*Author's Notes:* There is a "Publisher's Note" below, disclosing the frame of mind and events leading up to the first edition of Appraisal Today. My lovable publisher, Ann O'Rourke, probably knew what she was getting into: two full-time jobs. One running a busy, successful, full-blown residential and commercial appraisal practice in the SF Bay Area. Another as a journalist/publisher, attending many important appraisal conference and meeting over next 25 years.

She never missed an issue. The newsletter, despite its austere, evolving design, has consistently contained the crucial information an appraiser must know with a savvy, helpful, pointed and even crusty commentary for interpretation and judgment. Anyone who wanted to influence appraisers would try to convince Ann, but if they had skin in the game, she made them buy advertising.

I've known Ann since the mid-70s (closer to 35 or 40 years than the 30 that reflects her opinion. If experience is a teacher, she's right). Over the years, I've marveled at her energy, insatiable curiosity and passion for the truth, regardless of political and financial pressure from mortgage industry vultures.

As a scrupulously honest person, she has easily befriended the good guys and good gals of the industry. At the moment, at 74, she has no plans to retire. That insatiable curiosity keeps her turning over every rock for the truth about her profession.

This subscription-only newsletter celebrated its 25th anniversary in June. I couldn't celebrate along with it because I was writing a 4-part rant about the approaching extinction of the residential real estate appraiser (see my May to July articles).

I'm too old at 71 for sparklers and cherry-bombs, let alone millennial favorites like Luksusowa potato vodka shots and Vitamin K, so I thought: How would my introverted, irascible, isolated, opinionated appraisal comrades of all ages want to celebrate the last 25 years of their own coercion, valuation pressure, falling fees, blackballing, excessive documentation requirements and attempted fraud? And maybe having gotten a little ahead of the game by subscribing to Appraisal Today?

War stories, of course! Every appraiser can listen to a heartwarming or embarrassing field story, or one about fisticuffs over a carbon monoxide detector, and enjoy that warm realization that "it hasn't happened to me!"

The Germans refer to that special emotion as Schadenfreude or "misfortune joy", the happiness one feels over the bad luck of a competitor, persecutor or any really nice guy.

*Ann O'Rourke, Publisher and Editor's Notes*

Barry was born, lived and worked in Northern California for most of his life. He recently relocated to Pittsburg PA to be closer to his wife's family. We saw each other regularly at appraisal meetings and events.

His personality really shows itself in his "out there" and humourous writing. He has a wide range of experience in employers, from S&Ls to Wall Street and has done plenty of appraisals. I have been trying to get him to write for me for quite a while. He finally said yes a few years ago. When he recently retired he agreed to write a monthly article.

In comparison my writing is definitely more boring and much less fun. Too appraiser-like I guess...

At his request here are a few of my comments from the past.

I started this newsletter in 1992. My first writing was for a sailing club newsletter in the early 1980s where I developed a more informal writing style. I realized my readers liked was personal comments about the sailboat races and the other sailors.

In 1986 I started my appraisal business. I soon started writing business management articles for my local SREA chapter (predecessor to Appraisal Institute). I missed writing and investigated starting an appraisal newsletter. I also wanted diversification plus the challenge of starting and running a completely type of different business. And getting paid for writing it! I also learned that people will pay for opinions in business newsletters and to use the word "appraiser" regularly. This tip was from my mentor, Mary Dum, who wrote computer articles from appraisers for many years.

As I looked through my first few issues, I noticed that the issues have not changed much since 1992. Back then it was RTC and FIRREA. Business was up, then down. Too many rules. USPAP had taken over. Etc. Etc.

Today, we have the same themes, just different names..

*End of The O'Rourke Notes...*

**Residential real estate is fun!!**

The fact is that residential real estate appraisal is fun; it's just that the fun component, once 65%, has declined to 3.2% beer level. But, I remember loving a lot of things about appraisal that haven't disappeared yet.

Driving around for a day, taping a subject and reviewing comps with no one

breathing down your neck. Great haphazard conversations with the general public, including the occasional entertaining or attractive real estate sales person.

Wondering what new real estate trivia will I learn today? And sure as I was born, by 5 o'clock I'd picked up a valuable piece of knowledge: an understanding of easement by necessity.

After feeling smart about identifying a landlocked parcel, I was astounded to discover that there was an access easement by necessity, just that nobody bothered to record it.

Or, I appraised a house today with a nuclear bomb shelter 64' below the living room, accessed by a hatch under the coffee table. Is that incurable functional obsolescence?

I mean, that's just cool stuff, Maynard! Although the element of surprise may be lost when the appraiser finds himself or herself vetting megadata in the local market 10 years from now in order to advise the city council on infrastructure, he or she may discover a new relationship. I find two variables, let's say, year built and actual cost per square foot, that enables a formula that, when graphed, describes newly predictable pricing cycles useful in projecting sudden downturns.

Maybe not as exciting, but worthy of a pat on the back or a new web business that makes you a squintillionaire.

## **Appraisal Tales, aka War Stories!!**

Of course, I have had plenty of my own misadventures and pleasant surprises. I was in the field for a long while. But although my memory is fine, I have very little recall. Thus there are only three I remember with true delight or revulsion. As we lay out the tales that I've collected from appraisers over the past month, we might as well start with mine, mine, MINE!

### **Barry Bates: The Appraiser Masquerades as a Construction Project Manager**

In 1978 I was toiling away at Derivative Savings and Loan Association (name changed to protect the corruptible), which was owned and managed by two brothers in their late 40s.

The eldest was CEO, the younger CFO. Stylistically, CEO carried a pearl-handled Walther PPK, swaggered with false confidence and thought he was God's gift to finance (Remind you of anyone you're reading about?).

The younger brother was a balanced, affable guy, a CPA who kept the ship afloat as CFO. Being a lowly staff appraiser, I was rarely allowed into their presence. But, one day, the chief appraiser, a 60-year-old hippie from Marin

County, told me that the two brothers were awaiting me in the boardroom. When I appeared, they thanked me for the presentation I had done for the board on a congregate care project where they were considering an investment. Then I found myself suddenly promoted from senior residential field appraiser to construction project manager.

I had zero experience in construction and only a smattering of knowledge, mostly derived from leafing through the Marshall & Swift cost manual.

So I was excited and terrified, especially because there were two loan officers at the S&L who really knew their stuff, and who were already jibing at my ignorance.

My job had been created by a decision by the Board of Directors to activate the Service Corporation, an option produced when a California company was legally formed as a thrift institution (savings and loan association). It could engage in another business to benefit its stakeholders and depositors, but it had to be a service-type endeavor separate from the banking functions.

Housing demand was strong, so the decision was to build small subdivisions, PUDs, condo projects and vacation housing on a joint venture basis, providing loans to developers or property owners in exchange for their equity deposits.

I was to manage three developments: a 108-unit PUD in Santa Rosa CA, with a rough/tough contractor-made-good from Hayward (and workout buddy of Sonny Barger, co-founder of Hell's Angels, Oakland CA Chapter). Plus beautiful condo vacation homes at Squaw Valley, with a wealthy couple who owned the land and a condo conversion of a 19-unit apartment building in Polk Gulch, San Francisco, with a local fashion doyenne who owned the property.

After a couple of months, I realized why I had been chosen, and it wasn't my construction expertise. A diplomatic intermediary was needed to keep the JV partners happy, or at least cooperative. It was a babysitting job, but an important one. The partners, as I soon found out, had opinions of their own in line with a popular definition of joint venture: same bed, different dreams.

### **Barry Bates: A Little Tip for the Loan Officer**

The Squaw Valley / Lake Tahoe ski condos were beautiful units, designed like Swiss lodges, two stories, two baths, about 2,000 square feet each. The architectural work was still being tweaked, but a realtor had signed our contract to handle unit sales, and the wealthy couple came to town to stay in one of their international homes.

The lady was an heiress in her 40s; it was her family's money that represented the project equity. At a first phase cost of \$6,000,000, she had

\$1,000,000 on deposit with my employer. She spent most of her time visiting friends and harassing the architect.

Her husband, a native German and former Olympic ski champion, had...a fun personality and an appetite to go with it, for booze, cocaine, barmaids and gambling. I would stay for the workweek at Tahoe, then go home for the weekends to play with my newborn son and my pretty bride, whom I'd met while she was working as a Bunny at the San Francisco Playboy Club.

We didn't meet at the club, however. We were both "tenants" at a psychiatric halfway house in Pacific Heights (I was 23. She was 24. We had gone to competing San Francisco high schools. That first marriage lasted 10 years, until she realized that the light in my eyes was just the sun shining through the hole in the back of my head. Okay, okay, but she was crazy).

I don't know how I managed it, but Fritz liked me, I guess partly because I spoke German, and I would just tag along with him to his favorite Tahoe haunts like the River Ranch, making sure he didn't lose his allowance or end up in jail.

Tension was high, because his spouse's bank had just ducked out of a financing commitment, and approval of a \$6,000,000 development loan at my S&L had not been approved yet.

Our local branch manager, who had a famous last name, worked hard on making the loan docs pass federal muster. Sometimes he accompanied me and Fritz on our nightly wanderings. The project's contractor, a prominent Bay Area company with its own projects, would allow its project manager to come with us, too.

I would sometimes lose control of the group because I had not yet found the friendly doors of Alcoholics Anonymous. One evening, the four of us were visiting our realtor in Tahoe City before a night of carousing. Sweat ran down my brow because the Realtor constantly chopped out lines of cocaine on his pull-out extra desk space. For some time, we all partook in turn, passing the 100-dollar bill among us.

In case you haven't noticed, cocaine is still not legal in California. I had already learned that it was God's way of telling me I don't make enough money. Over the next 5 years, I was often astonished at the importance of the investors I met who regularly snorted blow.

One Bay Area elected politician I met eventually had to be fitted with prosthetic nostrils. At times during our Tahoe project, the boss would bankroll me, but with advice that he would not bail me out.

The Realtor's office had one of those bells screwed to the entry door so that the arrival of a potential buyer would not go unanswered. The bell rang. We all looked up. The sheriff folded his arms and looked at the four white-mustachioed

"gentlemen" at the Realtor's desk. He emitted a long sigh and remarked, "Would you guys please put that s\*it away?". I went to the bathroom to let out a little tired blood. I mean, to throw up.

One week after that incident, tension was resolved by the approval of the development loan. The contractor, who was counting on the contract to turn in a very successful year, was beholden and grateful to our loan officer in Tahoe, who, as I've noted, worked extremely hard on the deal.

When he arrived at the Tahoe branch the day after loan committee in San Francisco, he found his brand new Jeep CJ-7 parked in front of the door. He nearly cried when he learned it was a "tip" from the contractor. Especially when he found the kilo of fabulous Humboldt weed in the back seat.

### **Barry Bates: A Novel Way of Creating History**

The 108-unit Santa Rosa PUD was a breeze by comparison. Harry Waters (not his real name), had a "bad boy" history in his teens, but found God (Who was not lost at the time) in early adulthood and managed to grow his carpentry into home construction.

At the time I met him, he was finished one small subdivision in Northern California and was itching to start our 108-unit detached PUD in Santa Rosa. I would walk our project once a week, usually meeting Harry for lunch to address problems with permits, etc.

One lunch hour, he went outside for a few minutes to take a phone call, and returned jubilant, and looking more than a little relieved. The final inspection had been completed on his other project, including the recertification of his plan to preserve a rock outcropping on that property.

When clearing the site for construction a year ago, one of Harry's workers accidentally backed a front-end loader into the outcropping, essentially destroying what amounted to a Native American historical artifact. The boulder, located near the center of the site, had horizontal hollows smoothed by the gentle hands of Native American women as they ground corn for bread some 1,200 years prior.

Needless to say, it was declared a historical easement for which Harry submitted a preservation plan. When the City came out to inspect the finished project the day of our lunch, they examined the boulder and certified that the surreptitious midnight replacement, created from historical photographs in Harry's Hayward warehouse over a month's time, was still in great condition and had not been damaged in the course of construction.

(BTW, at my Tahoe project, I learned that if you, as a developer, were falling behind in your construction timetable against competing projects, the playing field could be easily leveled by visiting your competitor's projects in the dark of night just

prior to a routine county progress inspection, and scattering a few genuine antique Native American arrowheads around.)

### **Barry Bates: The Polk Gulch Condo Conversion**

As my wife and I were living in San Francisco, periodic inspection of the condo conversion on Polk Street was a project manager's dream. The fashion designer and developer, Adèle Marchande, was an accomplished businesswoman with a second permanent home in Paris, where she sold her clothes on consignment with the Colette on the Rue Saint Honoré. She also began her real estate development career there. We got along well and she vastly improved on my two years of high school French.

The only hitch along the way is that I had to spend an afternoon convincing our CEO that our company should not back out of the venture simply because he had heard at a cocktail party that Adèle was a lesbian. I finally convinced him that her preference enhanced the marketing market's perception of the project, since Polk Gulch had already become one of San Francisco's most favored LGBTQ neighborhoods.

I spoke with authority because I had grown up in Noe Valley and ushered at the Castro Theater at age 13-14. The manager, Warren Nasser (his name I shan't ever forget) fired me because I asked for Labor Day off. It was mutual; I hated him, and he hated me.

Well, that's enough of my stuff. I could regale you with my story of the naked lady who admitted me to her home in Vacaville for a refi appraisal (I just went about my business while she vacuumed the living room rug with 4 ankle-biters crawling around).

Or the recently immigrated Chinese buyer of a rowhouse in San Francisco's Chinatown, who showed up for a meeting with the seller and seller's agent while I was doing my interior inspection, and dumped \$80,000 in small bills on the couch (to this day, that's the largest sum of money I've ever seen).

Or the time I appraised a duplex in Bernal Heights, with one unit that was clearly occupied by the Symbionese Liberation Army (check the Wiki article. I was bummed not to have met Patty Hearst, but I had already met Herbert Hoover, Aleksandr Kerensky, Milton Berle and Little Richard; see Wiki articles on one unknown to you or 98% of millenials).

### **Kelly Robson: Hangin' with the Homies**

*[Author's Note: I am the same dude who authored the nonsense above. As the compiler of the war stories below, he was pressed into the role of editor by typographical errors and the protection of confidentiality. Speaking of*

non-appraisal related serendipities, I have to precede Kelly Robson's contribution by a tale from his pre-appraisal days as a registered nurse. I forget why he left nursing, but he piled up some great stories from his appraisal career.

We're still close friends; we met while wrangling over a pool of subprime loans being sold by his employer in 2005; I was his opposing opinion as a reviewer/slave for Greg Hansen (Hansen Quality Loan Services), who was in turn contracted to one of the big Wall Street investment banks.

Today, Kelly's still doing the occasional securitization review. But a few years before we met, he had been working in the operating room of the Intensive Care Unit at a Northern California hospital that was experimenting with the use of ketamine as a pre-surgery anxiety reducer.

He was a witness of the incident that caused a radical reduction in dosage going forward. The patient had been on the ketamine drip when the phone rang. One of Kelly's co-workers answered the call, saying "I.C.U." The patient piped up, "Wow! I see you too!"

*His scary appraisal story goes like this:*

"Appraisal war stories can be pretty depressing. Pulled up to do an REO in Logan Heights, one of San Diego's struggling neighborhoods, a place where the locals might do full renovations of the 90 year-old homes....and not install a permanent heating source ('we don't need it, we have fireplaces')."

"Took a quick look at the two guys on the back of a truck in the driveway and reached into my work bag for some kind of armament...they were most definitely convicts based on the pallor, the tattoos and the looks they were giving the fresh meat, i.e., me. Unfortunately, some moment of clarity had convinced me not to carry weapons anymore, so I picked up my clipboard, tape and camera, and went to introduce myself and politely, very politely, inquire as to their presence at this fine residence."

"And was very pleased when they turned out to be hardcore convicts who had found God somewhere at Soledad and were employed by a halfway house that had them boarding up/cleaning out REOs for the banks. About that same moment, a carload of locals slows to an appropriate drive-by-shooting speed and sizes me up (range, elevation, speed, wind direction)...and then noticed the two guys on the truck, who were returning the same looks they were giving. At which point, the car suddenly accelerates away. My two guys were too scary-looking for even the local bangers, who were not easily spooked. To This Day I Thank You, God and Your Halfway House Brothers."

"The drive-by folks were probably irritated that somebody could be interfering with their new playpen, i.e., the hacienda I had been assigned to inspect. The place had been left vacant 8 days...and was now in HBU as a vacant

lot, minus demolition costs. What wasn't stolen was destroyed. All copper had been pulled thru the walls and removed, kitchen cabinets either removed or destroyed in place, same with all plumbing fixtures, walls decorated with the 'local youth club' name and symbols, final act was to sh\*t and pi\*s on what remained of the flooring. You know it's Thug Life when somebody goes to all the trouble to use a pick ax on the original hardwood floor.”

"But the cons had my back...God bless them, hope they made it Back in The World."

### **Anonymous: Wisconsin, a welcoming place for inexperienced appraisers?**

*[Author's Note: This appraiser holds a sensitive position with a big East Coast development company and would prefer that his checkered past not contaminate his present position. Actually, his past is more like houndstooth; a real gentleman with a heart the size of all outdoors. And a Honey of an appraiser. And a very good friend:]*

A long time ago, up in the Dairy State, I was hired by a commercial appraiser who held a Designation by a Prestigious organization.

Mr. MARGR (a clever acronym, and not his real name), believed in doing the most with the least-that is, hiring inexperienced trainees to do all the work and providing minimal supervision or training. I needed work. I was recently laid off and had a family to support. So I ignored my instincts, which were screaming "run away from this charlatan!" As I said, I needed work.

So I took the job. My first assignment was to appraise a portfolio of small cement plants that made burial vaults. A burial vault, if you didn't know, is the container in which a casket is laid, some six feet underground. The burial vault prevents the coffin from collapsing under the weight of all that dirt over time and leaving unsightly and unsafe depressions at each grave. In all fairness, I didn't know this either.

It seemed simple enough, as the owner supplied appraisals done at some point in the distant past, appraisals that were spartan in detail and not terribly useful. Yet it was better than nothing, which is what Mr. MAIGR gave me. And the first property was in my hometown! I had no fear: Mr. MAIGR was going to guide me. His office manager (and also his mistress, as I eventually figured out) assured me that he was a GREAT supervisory appraiser and would be there Every Step of The Way!

So I set out to measure the first property, which was a hodge-podge of buildings built over time from the late 1940's through the 1980's.

No surprise, Mr. MARGR called me at the property and said I could handle this one on my own-but that, for sure, he'd be there to help on the next one. I had no plans, no specs, no sketches I could crib from to make sure I was even close to being correct. I'd like to think I did a pretty good job-what with my high-quality tape and newfangled laser-sonar measuring tool to gauge the clear heights.

I finished this one, and received my next assignment(s): five assignments in LaCrosse, Racine, Green Bay, Milwaukee, and Wausau WI. Again, the office manager (I think her name was "Honey") assured me I would not go alone, that Mr. MAIGR would travel with me and "show me the ropes". I think you can guess what happened.

It was quite an adventure, I must admit. I hadn't seen much of the Dairy State, and it is quite scenic. Very green in the summer, and truly picturesque. Nice people too, and very accommodating of me and my rookie questions.

And I survived, well enough. To do this job well, I purchased my own laptop computer, no small investment back in the old days, and my own camera, and spent each night on the road organizing, strategizing, writing, etc., in a Best Western, Holiday Inn, wherever (I did not cheap out on hotels. Nothing is worse than a bad night's sleep, and Honey assured me my expenses would be covered). Again: nice people who did not honk too often at me and my appraiser-style illegal U-turns and stopping in the middle of the street to take comp photos.

OK, one of the hotels I stayed at proved to be a poor choice-it was across the street from the bus station in Milwaukee. Bus stations are busy places at all hours of the day and night. Some of the patrons are quite noisy, as it turns out, especially at 3:00AM.

Well, owing to the Engagement Letter that Mr. MAIGR signed, he did inspect each of the subject properties - by chartering a small plane and flying to each of the cities. Unfortunately for him, the plane broke down in Milwaukee and he had to rent a car and drive all over the state anyway.

In fact, he actually arrived at one property a day before I did. Without even telling me! I received the only compliment during my trip, not from Honey or Mr. MAIGR, rather from the manager of that particular location, who said the guy who was here yesterday (Mr. MARGR) didn't even know how to measure a building(!). That compliment sustained me for about a month (I'll explain this in a moment).

Anyway, I eventually finished all of the inspections and wrote all of the reports myself. Unsurprisingly, Mr. MARGR never lifted a finger to help your humble narrator, and perhaps that was for the best. I learned then that choosing a supervising appraiser and mentor is no easy task, and if my instincts tell me to run, I had better run.

I lasted exactly five weeks at that job. I decided to quit after Honey called me

to explain that my travel expenses would not be paid after all, as Mr. MAIGR had lost so much money on his ill-fated charter flight that he just couldn't afford to. Though Honey assured me (she was good at assurances, I guess) that he would pay me back next month.

Well, I may have been inexperienced, but I was not a complete idiot. I knew that this was the Bad Sign my instincts had warned me about. I took my leave of Mr. MAIGR and Honey, never received a dime in compensation for my expenses. However, the true value of my short employment was priceless.

## **Short Entertaining Appraiser Stories**

*Editor's note: Barry's topic this month was appraiser "War Stories". I sent him a list of current paid subscribers and he called some of them. It may have been you!! I did the headlines for each short story. Lotsa Fun!!*

### **“Nice Plant” in Yard**

The homeowner seemed rather antsy and concerned when the appraiser told them that they would need to tape the exterior of the house. The homeowner followed the appraiser closely as they taped. The appraiser was taping the rear of the house and at an inside corner found a large, healthy, well tended cannabis plant. The appraiser continued their taping and commented to the homeowner "Nice plant".

The rest of the inspection went very smoothly.

### **Foto Only From Inside Pool Please**

The homeowner requested that the appraiser not indicate that the property had a pool on the report, or take any photos of the pool in the rear yard. The appraiser indicated that they were unable to do that. The homeowner persisted and suggested that the appraiser take the rear photo of the property while standing in the pool, or take it while balancing on the large alligator float in the pool. The appraiser promptly left.

### **Appraisal Manager Runs Out of Gas - a Revenge Story**

The appraisal manager was talking angrily to one of their staff members about an error on a report while driving in a deserted area. The appraisal manager ran out of gas. The local auto service provider would not bring gas to the appraisal manager in such a remote area. Nobody in the office was available to assist for some reason. The appraisal manager was not popular with the staff. The appraisal manager had to hitchhike and walk a great distance that day, always checked their

gas gauge going forward and became a much nicer person to work with.

### **Cesspool Inspection Gone Bad**

The appraiser was pacing off the yard dimensions to verify public records. The appraiser stepped on the rotten cover of an open cesspool and fell in.

### **Dog Bites Car**

The appraiser was leaving the property when the homeowner's large dog charged the appraiser's car and bit the fender over the front tire leaving deep tooth marks.

### **Gymnast With Stiletto Heels**

The glamorous appraiser insisted on wearing stiletto heel shoes at all times, in all weather and at all times of the year. The appraiser was walking across a wood deck and got the heel of her shoe caught in the gap between boards. The appraiser did a tremendous gymnastic grade face plant, just missed falling in the spa, sustained two fabulous black eyes and decided that sneakers or flats were just fine for field inspections.

### **Appraiser Gets Bribe Attempt instead of Handshake**

The appraiser stopped by the mobile home sales office to pick up some comparable sale information. A salesman walked up to the appraiser and extended his hand as if to shake it. Another salesperson took a photo. The appraiser later realized that the salesman had a handful of cash and the intent was to give the appearance the appraiser was accepting a cash bribe. The lender terminated the relationship with the mobile home sales organization.

### **Appraiser Revenge - Uncooperative Sales Office**

The appraiser went into a timeshare sales office on a blisteringly hot desert day to get information for a feasibility analysis on another project they were working on. The appraiser introduced himself and was told somebody would be him them shortly. After an hour of waiting, being ignored, given side-eye and observing the sales staff, the appraiser left. Oddly for some reason, the completed feasibility analysis did not indicate a viable market for timeshare units.

### **Female Appraiser Lifts Her Truck Off Big Rock**

The appraiser was doing a construction/phase inspection for an Assessor's Office. The differential on the appraiser's pickup truck got high centered on a large rock. The construction supervisor and workers thought it was a laugh riot until the

appraiser got out, grabbed a 4x4 and levered the truck off the rock and drove away while giving the international middle finger salute. The appraiser returned to the office, told the story and doubted that the construction crew at that site would doubt the resourcefulness of the next blonde girl they encountered. All in the office agreed.

### **Creative Clothing Creates Commotion on Construction Site**

The two appraisers decided to split up while doing a construction draw inspection on a very large subdivision. One of the appraisers was concerned that they might not be able to meet back up when it was time to leave given the size of the development. The other appraiser had chosen to wear a very form fitting pink turtleneck sweater, snug pants and high heel knee boots that day. The commotion created by the outfit assured the first appraiser that there was absolutely no chance of losing track of the other appraiser.

### **A Creative Garage Measurement**

The appraiser did a field inspection, completed their sketch and turned in the report for review. The reviewer noted that the appraiser had drawn the garage as a triangle. When the appraiser was asked if this was correct they responded: Well, I couldn't get around the back of the garage because it was too close to the fence, and all covered by bushes.

### **Chaz' Story: Condo Tiny Rear Photo**

Here's my appraisal story: I was working at B of A in 1984, and was send out to appraise a condo. Did the appraisal, no problem. The condo was the type where the back had a common wall with another condo so it was impossible to get a back picture for obvious reasons. I told the underwriter that when they rejected my appraisal for no rear photo. They said all appraisals have to a rear photo. This went back and forth for a few days and we were getting flak from the brass.

So I said if it, and took my camera and walked out the appraisal department front door and along the side of our building, put the camera 3 or 4 inches from the stucco wall and took a photo. All you can see is white, period. No definition. Send it to the UW and the appraisal was accepted. The whole office got some laugh from that, and I heard about it for years. There are no problems, only solutions.

### **What does this mean for you?**

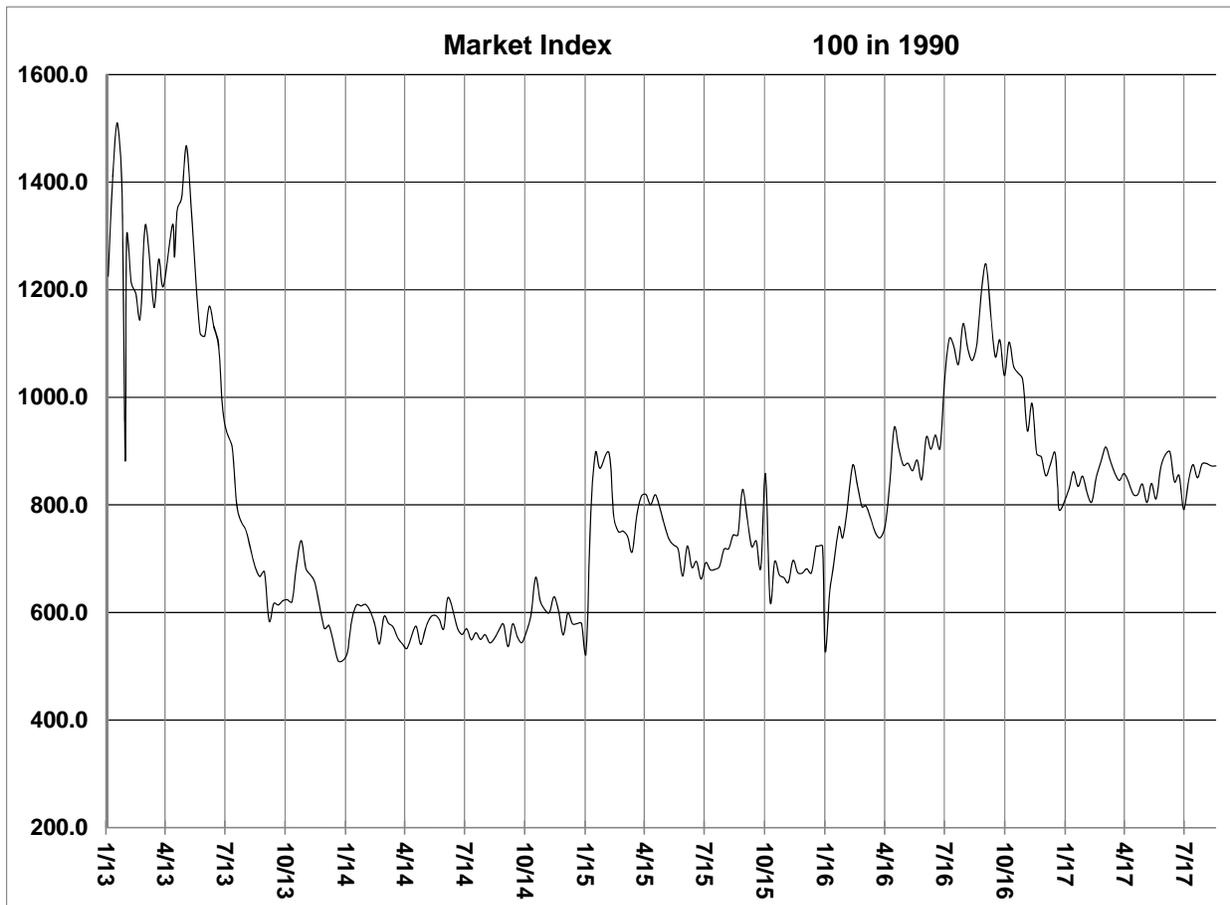
**Just For Fun!! Plus you don't have to sit through boring War Stories at a seminar or class.**

**Barry Bates wants to hear from you! Send your comments and criticisms by email. He can be reached at [barrettbates@gmail.com](mailto:barrettbates@gmail.com).**

=====

## MBA Loan Volume Application Index 1/13 to 8/17

As you can see below, between 2013 and today, volume peaked in early 2013, declined, then peaked again in 8/16. For many appraisers, volume dropped in early 2017. A good demonstration of the ups and downs of mortgage lending.



The survey covers approximately 75 percent of all U.S. retail residential mortgage applications, and has been conducted weekly since 1990. Respondents include mortgage bankers, commercial banks and thrifts. Base period and value for all indexes is March 16, 1990=100.

Appraisal Today  
ISSN 1066-3900

Appraisal Today is published 12 times per year by  
Real Estate Communication Resources.

Subscription rate: \$99 per year, \$169 - 2 years

#### Publisher

Ann O'Rourke, MAI, SRA

[ann@appraisaltoday.com](mailto:ann@appraisaltoday.com)

#### Subscriber Services

Theresa Lua

M,T,W 7AM to noon

Friday 7AM to 9 AM (Pacific time)

[info@appraisaltoday.com](mailto:info@appraisaltoday.com) (24 x 7)

#### Editorial and Subscription Offices

2033 Clement Ave., Suite 105

Alameda, CA 94501

Phone: 1-800-839-0227

Fax: 1-800-839-0014

Email: [info@appraisaltoday.com](mailto:info@appraisaltoday.com)

[www.appraisaltoday.com](http://www.appraisaltoday.com)

Appraisal Today is sold with the understanding that the publisher, editors, and others associated with the publication are not engaged in rendering accounting, legal, or other professional services. It does not attempt to offer specific solutions to individual problems. Questions about specific issues should be referred to the appropriate professional for analysis.

©2017 by Real Estate Communication Resources. All rights reserved. The contents of this publication may not be reproduced either whole or in part without consent.