APPRAISAL TODAY

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Index

Note: The final version of Barry Bates' 2018 USPAP Enforcement Guide is available online on the paid Subscriber Page.. It combines June's material plus new material finishing the full report.

Appraising - from the Middle Ages to now

by G. Michael Yovino-Young, MAI, SRA, ASA, FRICS

Editor's comments: One of the most fascinating appraisal speeches I have heard was given by Michael Yovino-Young at the 1995 Monterey Bay Appraisal Seminar in Monterey, California. The title was "An Historical Prospective on the Appraisal Profession." This article is an update of the prepared speech (I have added topic headings).

How long have there been appraisers? When did Europe's first rulers and potentates need to know the values in their dominions, and why?

Appraisal textbooks often contain sections on the history of economic *theory, but I don't know of any that has a history of appraising.*

"In the beginning"

I won't bore you with tales of early efforts to value property over the millennium. There are anecdotes going back to biblical times, to the Persian, Greek, Asian, and Roman Empires. Our forbearers are as ancient and notorious as the other noble service professions, but hardly as glamorous or controversial. So, it is understandable that few felt the need to write about our profession, since they were always doing the bidding of someone else, usually of much greater power and position, say, a king or army general.

In the European context, the "church" owned everything that wasn't already claimed by royalty. Did they need valuers? There does not seem to be much record to suggest they did. However, the Doomsday survey of 1066 A.D. of all the properties and possessions in England, Scotland and Wales seems to be the first truly comprehensive effort to create a basis for the purpose of levying taxes. Valuers and appraisers thus fall into the rather prosaic, boring category shared with bookkeepers (now called accountants), money lenders (now called bankers), actuaries, (now called insurance underwriters), and the like.

There were early exceptions such as the tax assessors and collectors in the middle ages who had life and death power over the populous, the merchants, tradesmen, and farmers. They were a ruthless lot, hated and feared. In Robin Hood's time, such types served at the pleasure of the evil sheriff, who in turn, worked for the king. These must have been our glory days, so it seems.

So what can be said for the more modern appraisal practitioner? Do we have a contemporary history? Do we have roots? We shall see.

1523 - the First Valuation Book

In the European context, we have to look to England for the earliest recorded recognition that there was an "appraisal profession". In 16th century England, 1523 in fact, a text entitled "Book of Husbandry and Book of Surveying" was published by a Mr. Fitzherbert. Surveying during this period was a term used to describe both the measurement of land itself and the measurement of its value, most commonly rental value since most property either belonged to the crown or to the church at the time.

Mid 1700's - Right of Way and Eminent Domain

Private property ownership increased dramatically after the mid-1500s, and by the mid-1700s laws were created that dealt with compensation for land acquired, severance, and damages to the remainders.

The tremendous growth in the creation of infrastructure for the expansion of major cities, water systems, canals for transportation of goods, road and street systems, inevitably required acquisition of private property.

Compensation was determined by arbitration bodies who based their awards on the estimated annual value or rent multiplied by some number of years, a form of valuing the present worth of future monetary benefits. According to one source, 20-25 years was typical for this calculation.

In efforts to satisfy multiple, overlapping, and usually contradictory claims to property by freeholders, leaseholders, tenants, tithe holders and others, English law evolved with the creation in 1801 of laws to settle these claims. These laws created the modern concept of surveyor, including appraiser and valuer as we are known in England still today.

Mid-1800s - Valuation as a Profession

But it was really in the mid 19th century at the ascendancy of the industrial age that a professional class of valuers was created. From 1844 on, all right of way acquisitions were regulated by law, setting up protocols and customs that we still use today, as much of our eminent domain law in the U.S. is modeled on the English Common Law.

One of the early pioneers was a Mr. Smellie, a Scotsman, who with a name like that, naturally gravitated into the law, becoming an attorney and later a politician, and capitalizing on his expertise as a railway valuer and arbitrator. Apparently a marvelous chap, give him his due, he was the originator of a standardized market data comparison process in 1860.

1834 - Assessing for Taxing Authorities (the "poor law")

The fine art of extracting money from property owners took on a more scientific context in 1834 (the so called "poor law"), when local governments were required to undertake property assessments, and a modification to this law a year later officially recognized the need to hire "professionals" for the undertaking.

By 1845, updated valuations were mandated every five years. By 1846, local assessors hired by each of the 15,000 parishes (counties to us) were a recognized profession in England.

1834 - The First Appraisal Organization

In 1834, the first organized body of surveyors was created in London with 6 members. It was a precursor to the later founding of the Royal Institution of

Chartered Surveyors (RICS) in 1868 with 20 members, which didn't get its "royal" charter until much later in 1946.

The RICS remains the largest appraisal related professional organization in the world, with over 70,000 members, reflecting the fact that it includes real estate agency professionals, land surveyors, estate and property managers, and appraisers.

The RICS is the prototype of many English-speaking countries valuation professions in all the former British Empire. But by the 1920s, the growth of the valuation business was increasingly identified with the common practice of property being sold at controlled, formal auctions.

In 1924, the Society of Valuers and Auctioneers was formed and had about 7,200 members in the U.K. and abroad. It was merged with RICS in 2000.

However, the Royal Institution is important to us because it was the model for the creation of all the early American appraisal organizations.

The 1930's - the First U.S. Appraisal Organizations

Up until the early 1920s, there was no recognized trade or business known or acknowledged as involving appraisers or valuers.

There were persons, of course, who fulfilled an appraisal role in one form or another, usually as an employee in the banking, insurance, OR transportation industries. Prior to World War One, certain real estate agents in larger brokerage firms were often appointed as the company "pricer". I knew one of these gents, more about him later.

Then, a few pioneers in the National Association of Real Estate Boards (NAREB) formed a planning committee in 1922 as part of an effort to expand its membership by creating divisions for emerging specialty services such as appraisers, property managers, industrial agents, among others.

The idea of creating a separate appraisal division was shelved until 1928 when NAREB authorized an appraisal division. However, the Depression in 1929 delayed its formation until July 1932 when 120 members created the AIREA based on bylaws and codes of ethics taken from the RICS in England, American College of Surgeons, and the Civil Engineering Society. The new organization was the American Institute of Real Estate Appraisers (AIREA).

As the banking and thrift industries clawed their way out of the depths of the depression, appraisers working for these institutions formed the majority of the membership that created the third national group in 1935 that was to become the Society of Real Estate Appraisers.

One year later, what was to become the American Society of Appraisers was formed in 1936 as the American Society of Technical Appraisers, followed in

1939 by the Technical Valuation Society. ASA now claims over 6,000 members in the USA and 12 foreign countries.

The merger of the Society of Real Estate Appraisers and the American Institute of Real Estate Appraisers in 1991 created the Appraisal Institute, which in 1997 numbers over 9,700 designated members and over 9,200 associate and affiliate members in the U.S.A. and 11 foreign countries.

What was U.S. Appraising like in the Early Days?

The earliest appraisal I ever saw was dated 1915 and consisted of a 6-inch by 8-inch index card that was hand-written with an address, date of "viewing", the simplest of descriptions, special features (one line) and an estimated value "for sale".

I learned at the feet of an early pioneer, George Hoyt, who was a very early member of the American Society of Appraisers, holding its highest and rarely bestowed FASA designation.

He started his career in 1909 as a "pricer" of real estate, traveling by horse and buggy through the hills and flatlands of Oakland and Berkeley (California). Another influence on me was Ormsby Donogh, one of the earliest MAIs in the San Francisco Bay Area.

Both men were also founding members of one of the first California chapters of the former Society of Real Estate Appraisers, Chapter 54 in the East Bay area of the San Francisco Region.

These men conducted their appraisals in the simpler fashion of the time. For example, one appraisal dated 1922 is one-page long, identifying the property as a two-story, 30-year old retail building, in good condition, and in a good location, occupied by two tenured retail businesses and two office tenants on the second floor, generating $3,000 per year in rent. The letter concludes that "a desirable price for your property is $25,000." That is an appraisal, isn't it? Oh, for the good old days. Or maybe you should be an English appraiser, where such short reports are still the norm.

Form reports are a Post WWII phenomena created primarily by the federal government's FHA and VA. My earliest work was in 1958 using these forms, one page in length, very simple, little discussion, mostly boxes to check off. Savings and loans also developed their own forms during this period, usually even simpler and shorter in form and content. There was no real standardization until well into the 1970s. The computer age has changed all this, of course, and standardization is increasingly nationwide.

In the early 1960s, while working for a San Francisco Bay Area Savings and Loan, staff appraisers often completed 6 to 8, sometimes 10 or 12 appraisals in a day. My own record is 16 and I still had time to goof off. In these golden days, fee appraisers were charging $75 for narrative reports. On residences fees were as little as $25 for some form reports for lenders.

So who are we and where are we as a profession in 2018?

Our roots are in the 16th century, modeled on 18th century valuers and surveyors in the British Empire.

Domestically, we are now celebrating our 93rd year of professional organization, we are a recognized professional business, licensed, with a fine set of recognized professional organizations, a highly refined set of professional standards and code of ethics, mostly insured, and worried about who we are and what is to become of us.

We are better trained, better prepared, more accountable, more insurable today than ever before.

We are watching the repeat of contemporary history for appraisers taking place in the former Iron Curtain countries, where private property and real estate markets are being created for the first time in a century.

Yet, our place in the greater world of professional service to the public and real estate related industries is uncertain and still being redefined and refined by the Appraisal Foundation and other, often hostile organizations, such as the banking and lending industries that continue to attempt to erode our role and importance in the totality of the real estate industry.

This is not the first time the appraisal profession has been subject to challenge, change and uncertainty, nor will it be the last. Curiously, this same challenge to the valuation profession is being experienced by valuers and surveyors in the British Isles.

We will prevail and survive this transitional period, and prosper in the future as we have in the past. We offer a useful, needed service to the public and to the world of business, and stand alone as the sole voice of impartiality and objectivity in the real estate industry. You are part of an honorable profession.

I have always been proud to be part of this profession.

About the author

G. Michael Yovino-Young, MAI, SRA, ASA has a 58-year career as a real estate appraiser located in the San Francisco Bay Area. He is a designated MAI and SRA in the Appraisal Institute, an ASA in Urban Property with the American Society of Appraisers, and is a Fellow (FSVA) in the Royal Institute of Chartered Surveyors (FRICS) (UK). His appraisal firm, Yovino-Young, Inc., is located in Berkeley, Calif., 510-548-1210, www.yovino.com.

His work has taken him to many foreign countries.

Appraising over 3,000 years ago

Book of Moses - donation to a priest

There is a biblical reference in the Bible to appraising in the five books of Moses, written about 1400-1500 BC.

A person could give (dedicate) his house or his land to a priest for their use. Kind of like when we donate property to charity. But the original owner had the right to redeem the land/house back if they so choose. If the original owner makes this decision, they would have to pay a 20% penalty over the original value to redeem the land/house.

Therefore, a neutral appraiser was needed to estimate its market value, so as to determine the price and penalty. This role was given to the "priest". (Not the one receiving the gift, but someone from "the clergy".)

Scripture Reference...

"And when a man dedicates his house to be holy to the LORD, then the priest shall set a value for it, whether it is good or bad; as the priest values it, so it shall stand. 'If he who dedicated it wants to redeem his house, then he must add one-fifth of the money of your valuation to it, and it shall be his." (Leviticus 27:14-15, New King James Version of the Bible).

Thanks to John Karmelich, MAI for this contribution to appraisal history from the Bible.

Book of Numbers - appraisal of the Land of Canaan

In the Book of Numbers, Chapters Thirteen and Fourteen: God commanded one person from each of the twelve tribes to "to make a reconnaissance" of the Land of Canaan, now Israel. Persons selected were leaders, with sincerity of purpose, integrity, wisdom, judgement and knowledge.

The appraiser/leaders journeyed to the area and looked at the agriculture, towns, and people and collected agricultural samples. The objective was to determine the highest and best use of the property.

The turnaround time for the appraisal report was 40 days. The appraiser/leaders gave a verbal report to Moses and the entire community. "We went into the land to which you sent us. It does indeed flow with milk and honey; this is its produce. Its inhabitants are a powerful people. The towns are fortified and very big, yes, and we saw the descendants of Anak there. The Amalekite holds the Negev; the Hittite, Amorite and Jubusite, the highlands/ and the Canaanite, the seacoast and the banks of the Jordan."

Per their report: "The coastal plain has abundant water resources and fertile soil; the hills of the lowlands are well suited for vineyards and olive groves. The central mountains are covered by forests and some of the wide valleys intersecting them from east to west are among the most fertile parts of the country."

In contrast, the Negev, the large Judean desert and parts of the Jordan Valley were found to be unsuitable for agriculture and settlement.

Ten of the 12 appraisers had negative reports. Two had positive reports, Caleb and Joshua. Later Joshua lead the Israelites to the Land of Cannan.

This article is based on "The First Appraisal" written by Sanders K. Solots, published in the 1986 issue of The Real Estate Appraiser and Analyst, Summer, 1986, by the Society of Real Estate Appraisers.

Appraisers and The Big Short: Tricks & Traps for Avoiding Market Blindness

By Barry Bates

Editor's note: The Big Short is available for rent (streaming) on Amazon and Google play. I watched it - very good! Prices have been declining in some areas. Be Careful Out There!!

If you haven't watched The Big Short, you've missed a few dark laughs, but probably a few cringes, too. I was afraid to watch it until last night, because I could do without cringes for the time being.

It's the gruesome and funny true story of five Wall Street guys who figured out that the housing market was about to crash, then scrambled to invent a vehicle to bet against its success (credit default swaps).

I had already had a front-row seat for the housing crash; I was working for big investment banks that were gobbling up subprime loans in the thousands. Everybody seemed like a nice guy to me, so, like nearly all appraisers, I didn't question the meteoric rise in real estate prices during 2006-2007. I sat in conference rooms, on a high horse, deciding which loans to buy and which to reject.

I found out afterwards that investors were so greedy for subprime-backed securities that the sellers of these loans in the private sector (New Century, Countrywide Securities, etc.) could dictate to the reviewers like me that we could only "kick" five percent of the loans on the pool list; otherwise they would sell to someone else.

It was the second time in my career I had been bamboozled. The first time, I understood what was happening to my employer (which was being sold off to a big investment bank), but I foolishly assumed that the markets are always right; after all, I'd been through wild and inflationary times during the 80s, and nothing bad happened. SO I was doing what appraisers in the field were doing: running the Sales Comparison Approach to the exclusion of everything else.

In the late 80s, I figured out a good trick to take the market's temperature, but I filed it away and forgot it when my clients were not interested. By 2008, I had found that they weren't interested in anything that gauged their products' risk. The sales guys had taken over the c-suite at mortgage originator shops, using their subprime commissions. The secondary market buyer of subprime loans, including appraisers like me, just did the same thing to me that got me once before; they concealed the riskiest loans and gave us "tie-out" negotiators only the safer ones to negotiate, buy or reject.

Moreover, when we would select a population of loans to negotiate, we picked high-LTV loans rather than those with adjustable rates.

Appraisers and bad loans

Appraisers have no control or visual access to the mortgage pipeline, so bad loans can be squirreled away, then added to mortgage-back securitizations at the last minute. When they rushed to market to sell, the Wall Street rating agencies were already putting 'A' ratings on subprime loans when, in the aggregate, they should have been rated 'C' or lower.

Appraisers across the country had put their faith in the Sales Comparison Approach, as investors put their faith in the rating agencies. By 2006, no originator wanted to see any other approach to value. But if you want to be safe going forward (civil claims against your E&O policies), there are things you can do.

What to look for in the market

The conventional approach is outlined in Ryan Lundquist's blog www.scramentoappraisalblog.com. (He's appraising in my old home town of Sacramento). He uses all the conventional tools to take the market's temperature: comparison with earlier periods of days on market, volume of offers, listing views, seller concessions, sale/list price ratios, price reductions, listing priced lower than sales.

If your data access and time permits the study of all factors noted above, you will come away with a solid, supported opinion of current residential market stability and direction.

WHA-a-a-a-t? The Cost Approach?

Yet, I discovered a short cut to knowing when you're out on a limb: the Cost Approach to Value.

No clients want that, and it takes time, effort and money to create a report with it. All true, but this cost approach is for YOU, the residential appraiser in the trenches (kind of like the deplorable minions in Despicable Me).

We can be grateful for technology because of the data it has brought to the desktop of the appraiser (in the old days, you were hard put to aggregate a thousand sales on which to run a statistical analysis), but it has its time and effort drawbacks as well. ("If you would like to see a list of the way technology has NOT improved the quality of our lives, press 3.")

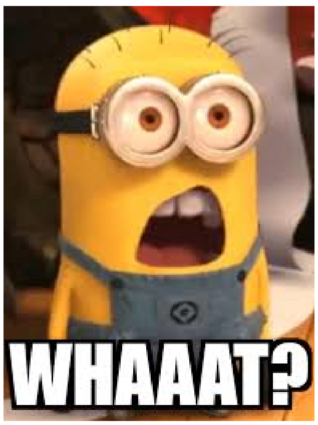
So what will you do with the Cost Approach? Use it to search for soft dollars, a term that used to mean a way of offloading the payment of commissions to agents instead of payment in cash for services rendered (hard dollars). In this article, soft dollars refers to dollars that may not really exist for long, or padding sometimes added to a transaction to promote investor faith.

In the case of the housing crash, I should have done one simple exercise as I paused in front of a rancher in Rancho Cordova and wondered, "How could this house already be worth $425,000 when it appraised only 3 months ago for a loan at $265,000?"

The property was definitely worth at least $265,000 in 2005. So let's take apart the new price to discover what happened, other than truly incredible appreciation rates.

New contract price:	$425,000
Replacement cost new 2006(98.21/SF)	($176,778)
Contractor/Developer Profit	($40,650)
Land Value	($78,500)
"SOFT DOLLARS"	$129,072

This example is taken from a 2006 sale of a 1985 rancher with 1,850SF on an 8,700SF lot, located in Rancho Cordova, California, a bedroom community to Sacramento. So what's the question?



Well, duh, where did that 129 grand come from? During periods of unsupportable "appreciation" rates, when somewhat lower margins reigned, developers would tell me that the extra dollars reflected developer profit that would magically turn into additional land value when the home was sold; shame on me for believing them when I was a just -out-of-college-appraiser in 1972, and when the magic seemed every time to come true.

However, it's still prudent to identify soft dollars in lower amounts as an unassigned part of land value as improved; but not at 30% of price!

Today, with 40 years of experience, there's no way I could accept a claim of developer profit of 30%. For one thing, the developer should be collecting profit below the margin expected by a contractor (typically 10% to 15%). Obviously, there's no room for developer's dream that that should be included in a cost approach. Certainly not in the subject ranch house in a depreciated rancher built by a contractor on spec, where land values have remained steady as the neighborhood approached total build-out.

The soft dollars equate to present value of anticipated future benefits, but not to lenders or contractors. Finally, the housing crash amounted to-remember?-a price decline of 30% nationwide. There are no coincidences.

So the big number showing up in your cost approach cannot be considered a cost of development or construction, and the payout to an owner at $425,000 is at high risk. You tried to make it a part of land value, but you had no land sales (built-out tract) and the county assessor is sticking with his estimate of 32% attributable to lot value ($78,500). An adjustable rate mortgage, plus three months free interest up front, was an invitation to default in a huge number of subprime loans loaded into Collateralized Debt Obligations (CDOs)which were aggregations of multiple securitizations and sold like bonds.

The Big Short in 2006

In 2006, unscrupulous loan officers in Reno and Vegas were luring in hotel employees with such loan "features". All it took was for the start rate to adjust to market, whereupon the room attendant could no longer pay. (In The Big Short, the victims were well-heeled strippers who were holding 5+ mortgages on investment homes.)

Thousands of loans were made in the run-up to 2006, but some defaulted even before the first payment, but they were too few to set off alarms. At that point, there were thousands of similar loans already sitting in tranches of securitizations that had just begun to unravel.

Some bright boys bet against the market (The Big Short again. If you haven't seen it, you MUST, it's your duty as a fiduciary) and won big. They were the only ones, except for those lower-level loan offers who made a pile as the Money River flowed by them.

One loan officer told me this: "I would make my mother a subprime loan". He knew that the blame for her default would not rest on him. Hundreds of loan officers for subprime originators, and their managers and directors, should have gone to jail for fraud.

Because that didn't happen, the residential appraiser needs to remain on tenterhooks regarding their local markets.

The Income Approach

A similar test can be worked with the Income Approach now that so many SFR rentals are offered online. It can be used to test the Cost Approach or your estimate of market value by the SCA.

A current actual rent for the same housing example was about $2,500. A working gross multiplier for units having 3 bedrooms was verified via rent.com at about 110.00. When applied to the subject, the value by income approach would be 110.00 x $2,500 = $275,000.

If you then add the soft dollars exposed above to the income approach, you're back at $404,000. You can then speculate as to the actual indicated point market value estimate, but the exercise supports your cost approach and contains the same evidence that whatever the value is, it sure as hell ain't $425,000.

I encourage you to try both approaches for a while and see whether you're comfortable. Ryan Lundquist's blog (noted above) sees no reason to sweat .Though inventory is growing, days on market shows that it is being absorbed at a steady rate.

The mean price for an SFR in 2017, per Ryan's chart, was $381,429 ($220/SF x 1734SF). An online replacement cost estimate was $251,594. Add the lot at $80,500 and you've got $334,000.

From the "normal indicators", the growing inventory in Sacramento is not very worrisome because the market is clearing it to a manageable level every month. But my "soft dollar" residual approach adds a note of extra caution.

What to do? Decline assignment or…?

Having run the reverse cost approach and in a state of worry about the result, what can you do? Refusing the assignment is an option, but not a very satisfactory one. So somehow you need to make the appraisal saleable and protect yourself at the same time; you don't want to become the investment of a hedge fund set up just to sue appraisers.

The only viable option I see is to add a limiting condition, disclosing that the estimated market value exceeds replacement cost new by X%. This indicates potentially unstable and/or excessively speculative market conditions which may not sustain the subject's value or price in the short term. There will be problems especially if default rates on mortgages, similarly collateralized in mortgage-backed securitizations, begin to exceed 5%.

Of course, the minute someone on the lending side actually reads your appraisal, you will be asked to take out your CYA clause. Unfortunately, the historical pattern is for mortgage originators to take over any data source that provides accurate information about housing.

Example: I was VP for a major data provider for a year or so; a client who had bought thousands of AVMs to back up a pool of mortgages for sale complained that the values were too low. I spent a Saturday watching the IT guys tweak the algorithms to drive the AVM results higher. Thus, residential cost estimates provided by private companies should give you pause for thought if they start being acquired by banks, AMCs and subprime mortgage originators. If that happens, you can always call up a contractor to get more accurate data.

A standard Wall Street game is to simply rename any product or service that causes investor losses. Bloomberg recently noted that the CDO is making a comeback as a "bespoke tranche opportunity".

The Bottom Line - Be careful

A million people lost their homes in 2008 when foreclosures spiked at 81%. There are still "ghost neighborhoods" that remain unoccupied. Appraiser liability aside, none of us want to be caught unawares all over again.

The bottom line is caution, especially when some blogs like Bustle smell another bubble in the works.

About the author

At 72, Barry has had wide-ranging experience and a technological perspective in a fast-paced career that serves as a testament to the fact that he has never been able to hold down a steady job.

He is now "retired" and lives in Pittsburgh, Pennsylvania with his wife, Kathleen and their two dogs. He writes for real estate publications and, in his own words, tries to get into more trouble.

In 2008, he filed whistleblower suits against MERS (on behalf of county recorders) in 12 states, all of which failed miserably.

Barry Bates wants to hear from you! Send your comments and criticisms by email. He can be reached at barrettbates@gmail.com.

“Retirement" for fee appraisers: when, why, and lots of options

I have been thinking about writing this article for quite a while. Of course, all I have to do is look in the mirror as I am a 75 year old fee appraiser. This article focuses on appraisers who plan on retiring within the next 10 years.

In this article I focus on appraisers approaching retirement discuss what it means for fee appraisers. Not a lot can be done to accumulate savings.
But it is useful for younger appraisers so they can see their future and plan ahead. For younger appraisers, there is lots of financial and personal advice for planning for retirement available for you to read.

According to a recent survey by McKissock, "42 percent of appraisers in the U.S. are planning to retire in the next 10 years."

Myself and other vendors who sell to appraisers have noticed that the number of appraisers retiring and cancelling their services has been increasing. I don't have any statistical data, but it makes sense that, particularly for residential appraisers, there have been very few new appraisers in the past 10 years, so the average appraiser age keeps creeping up. Baby boomers (born between 1946 and 1964) are a large number of people retiring.

Most of my retired friends with a pension were teachers or government employees. I know appraisers who got government appraisal jobs in their 40s and 50s to get pensions, especially at assessor offices. Other appraisers invested in rental homes and apartments and retired early.

In the past, most people retired when they started collecting social security and/or a pension, often at age 65. Social Security was set up in the 30s when most people died around 65, such as my grandparents.

Pensions and Social Security are defined benefit plans: you get a set amount every month with some cost of living adjustments.

Pensions peaked in the late 70s. Today, few get a pension, except public employees, some union members, and some corporate employees. By the 1960s, half of all employees in the private sector were covered by a pension plan. In the 1970s and '80s there was an introduction of personal retirement savings plans such as IRAs and 401k. Today, about 22% of non-public employees get a pension. In the public sector over 70% receive one.

But, few self-employed appraisers get pensions unless they get one from previous employment.

Many people with pensions retire when they are vested (on a certain date) and will receive a monthly pension. Why? Because that is what most of their co-workers do.

Appraiser age data

Over 66	13%
51-65	49%
36-50	28%
26-35	9%
Under 25	1%

Source: U.S. Valuation Profession Fact Sheet - December 2017. Appraisal Institute

What is "retirement"?

Merriam Webster dictionary - "withdrawal from one's position or occupation or from active working life".

In prior generations, when someone told you they were retired or plan to retire, it meant they weren't working at all. But, that has changed.

There has been discussion of a new term, but nothing has been determined yet.

For some, retirement means not working at all. For others, it means finding work that's more meaningful to you or working fewer hours.

Why do appraisers keep working after "retirement"?

For decades, the United States' retirement system has been characterized as a "three-legged" stool which includes Social Security, employer pensions, and personal savings. Today's workers are expecting greater diversity in their sources of retirement income including, notably, the 39 percent who cite "working."

Among workers who plan to work in retirement and/or past age 65, their reasons for doing so are more often financial (83 percent) than healthy-aging related (75 percent).

Sixty-six percent of Baby Boomer workers either expect to or are already working past age 65 or do not plan to retire. Many of Generation X (56 percent) also plan to do so. In contrast, the majority of Millennials (59 percent) plan to retire at 65 or sooner.

The top financial reasons include "wanting the income" (57 percent) and "concerned that Social Security will be less than expected" (41 percent). The top healthy-aging reasons for working in retirement are "being active" (54 percent) and "keeping my brain alert" (43 percent).

Source: Transamerica Survey (see below).

You despise your job - a common reason for retiring for appraisers and non-appraisers

Many appraisers are dissatisified with working for AMCs for low fees and excessive revisions, UAD, CU etc. I don't see this changing in the near future, if ever.

If you asked appraisers prior to 2008, the main complaint was mortgage broker pressure. This is gone, although some AMCs do pressure for increased values.

Retirement "triggers"

For many who retire, there is something that happens causing you to decide, such as.

- Hate your job and don't think it will change. See above.
- Spouse retires
- Health problems
- Influence of family and friends who have successfully retired
- Children graduate from college
- It's the right time: finances are in good shape and emotionally ready for the changes that retirement will bring

When are you "too old" to work?

When asked the age at which they consider a person to be 'too old' to work… Baby Boomers are most likely to say it depends on the person (69%), followed by Generation X (54%) and Millennials (44%).

Among those who provided a specific age, "Millennials consider a person to be "too old" to work at age 70 (median), while Baby Boomers and Generation X both say age 75 (median)" according to an analysis of date from the 2017 Transamerica Retirement Survey. (p. 15)

Part time appraisal work - an option for you?

Many appraisers, such as myself, have cut way back on the number of appraisals we do. I limited my area to my small city, which worked well plus no traffic hassles.

Lots of people "retire" but continue to work part time or volunteer part time.

For fee appraisers, with no pension or large 401k, continuing to do some appraisals is a very good option for additional money.

However, the costs of MLS, forms software, E&O insurance, auto expenses, state license, association dues, etc. can add up.

I asked my E&O company (Liability Insurance Administrators) if my cost could be lowered as I am billing out much less. They said to check with their underwriter, which I will do for my next renewal.

The Appraisal Institute offers reduced dues for semi-retired appraisers.

Doing appraisals after you give up your state license

This is usually the "trigger" for retiring from appraising.
I don't recommend giving up your license unless you are sure you will never want to appraise again as it is an easy way to increase your retirement income.

In most states, you renew every two years and must decide then. Fortunately in California we are on a 4 year renewal cycle, so there is a longer period before deciding.

You can appraise without a license in many states, but it is very difficult to get work. No lender work and many other clients want to know if you are licensed. When licensing first started, I knew appraisers who did not get one because they never worked for lenders. They had to get one because their clients want it, particularly attorneys.

Increase contributions to your SEP IRA, Solo 401k or other retirement plan to build up your savings

A SEP-IRA allows up to $54,000 in income or 25% of income whichever is less (generally - check with tax advisor). Limits for a Solo 401k is $18,000 or $24,000 if over 50 for 2017.

I usually contribute the maximum allowed every year.

Part time non-appraisal work

Unfortunately, this is usually pays much less than appraising, such as retail employment.

But, you may like working on your house and would enjoy working at Home Depot.

A second business

Real estate related business are a good option for appraisers.

Property management and/or sales is a good option. I have a brokers license, but have seldom used it.

One of the reasons I started my publishing business was a second business so I could retire from it or appraising.

Many of the appraiser vendors are former appraisers, such as most of the forms vendors. Forms & Worms was started by Henry Harrison, an appraiser, and his wife. More recently, appraisers have developed and sold software for adjustments, managing an appraisal business, etc.

Some appraisers have other types of business, which could be almost anything: classic cars, Ebay sales, boat sales, etc.

Volunteer work

Many people find this satisfying. There are a lot of options.

Doing something you always wanted to do

One of my brothers is a musician. He has been writing songs since high school. He retired a few years ago and spends most of his time in his basement writing and recording his songs.

Recently, he started playing in a band with two other retirees and is having a great time.

He is not planning on making much, if any money, but there are other opportunities that do.

Besides, Joy is Priceless!!

Income - from a spouse

I am single and worry a lot about when I get too old to work. That is one of the primary reasons I waited until 70 to start Social Security. Unfortunately, when we married in 1973 I did not request to receive part of his pension when he died. We did not worry a lot about pensions back then and it would have reduced his pension.

One of my brothers retired a few years ago - house paid off, daughter graduated from college, spouse already retired, AND in good health.

Property investment income

Unfortunately, relatively few appraisers purchase investment property. Too risk averse, I guess.

Appraisers who have rental property are in better shape financially for retirement. We purchased a rental duplex in 1985 (after doing a 1031 exchange for our house purchased in 1975). I sold our big house in 2008 for $1,000,000 (just before the crash), purchased in 1995 for $385,000. I moved to my duplex.

Recently, my sister retired and sold her house and extra buildable lot and is living in her rental home. None of the properties had mortgages. Her last child just graduated from college.

I knew a residential appraiser who purchased rental homes. When he retired he sold them off one by one for retirement income. A local commercial appraiser purchased commercial properties and retired from appraising in his early 50s.

Social Security - delay until age 70

I am 75 and started collecting social security at age 70. Why? I don't have a pension or a big 401k. I am not married. I will need money when I am over 85, not now. Also, Social Security is taxable. I use all of it to pay my income and self employment taxes.

If you start at your full retirement age (such as 66) you'll get 100 percent of the monthly benefit. If you start at age 70, you get 132% of your age 66 benefit. But, only 3% of all seniors wait until 70. Every year you wait, you get 8% more.

If you don't want to wait until age 70, every year you delay, after age 62, you will receive more benefits.

Medicare starts at age 65

You do not have to start Social Security at the same time and cannot start Medicare at age 65.

Collecting Social Security starting at age 66

If you collect at the first possible opportunity at age 62, your benefits will be permanently reduced by approximately 25 percent.

The most popular age to start is 62, the earliest age possible, chosen by 42% of men and 48% of women.

Why do most people start collecting Social Security at age 62?

1. They need or want the money sooner. Maybe they are unable to work or have financial problems, especially during the recent recession. I have a friend who is a former newspaper reporter and editor. She was laid off and could not find another job.
2. Your health is poor and you don't expect to live very long.
3. You don't want the government to keep your money if you die too soon.
4. You want your money as soon as possible.

If you start at age 62, your monthly benefit cannot be increased. Until a few years ago, at age 66 you could "pay back" the benefits you had received and get higher benefits at age 66. This was repealed a few years ago.

Get a government job

I quit working at the assessor's office after 4 years in the late 1970s. I would have been vested at 5 years. But, I was not worried about retirement back then.

Some appraisers start working for assessor's offices, or other government offices, typically working in appraisal or real estate related jobs, after 10-20 years of fee appraising.

There are still some remaining long time lender staff appraisers at banks, one of the few private employers who still sometimes give pensions.

Required minimum distribution from retirement account

Required minimum distribution is the minimum amount you must withdraw from your account each year.

You generally have to start taking withdrawals from your IRA, SEP IRA, SIMPLE IRA, or retirement plan account when you reach age 70 and 1/2. Roth IRAs do not require withdrawals until after the death of the owner.

There are substantial penalties if you do not do this.

Where to get more information

There is lots of good financial information online for planning your retirement, but it is almost overwhelming. I did not include any in this article as I specifically wrote it for appraisers approaching retirement.

You can also consult a financial advisor.

If you don't have a solo 401k, SEP IRA or other retirement plan, I recommend using Vanguard, which has very low fees and is well managed.

I write about this every year in my annual income tax articles. The most recent is November 2017.

This survey has plenty of data and is well written: Annual Transamerica Retirement Survey of Workers December 2017. Just google the name (put in 19th to see if it is available). I used some statistics from this survey in this article.

Residential vs. commercial lender fee appraisals - fees, reports, reviews, competition, etc.

I have been watching the residential and commercial appraisal profession since I started appraising in the late 70s. They are similar and yet different. Both have had significant changes since 2008.

I did both commercial and residential lender fee apprais als for many years before 2008. Residential has changed dramatically. Commercial has some changes.

Residential lender appraising is similar in all areas because of standard reports, reviews, AMCs, etc.

There is much less geographic conformity for commercial. Examples I use are from my local market, but appraisers in other areas have the same experience. Your market may be different. Below is non-local commentary from a long time commercial appraiser software vendor.

Commercial appraising - the "Big Picture"

When following the commercial appraiser situation, I was not sure it reflected national issues. The article below was very informative.

This is an excerpt from a June 7, 2018 blog post that summarizes the state of commercial appraising. It is very informative.

"There's plenty of things to point your finger at that are no longer the same as when you entered your career. Thing is, if you're a newbie, a yute or dare I say millennial, you don't know or care about how it used to be. The opportunities are the same, but presented differently. As a veteran you may feel out of place talking about the positive attributes of the trade. Sort of like a 1990s movie plot, a New York attorney feeling like a fish out of water in an Alabama courtroom. "

"If you've been around the block, you may think the following are valid reasons not to go into commercial appraising in 2018. No. 1 is a big one, not only for Mr. Dangerfield, but for many of us in the ranks today.

- Significant decline in respect
- Historically low fees
- Sometimes anonymous clients, reviewers or feedback from clerks
- Increasing checkbox mentality
- Few know that commercial appraisers still exist in the wild"

Source: Encourage the Yutes, by Jeff Hicks, MAI, President of the The Dohring Group, RealWired! He writes regular articles for commercial. To read the full article Google the title.

Appraiser license type

Certified Residential	55%
Certified Commercial	36%
Licensed	9%

Age of appraisers - young vs. old

Before 2008, residential appraisers tended to be younger and commercial appraisers were older.

The ups and downs of residential appraising resulted in armies of trainee appraisers being hired and then laid off when business slowed down.

In my area, when I go to the local Appraisal Institute events, there are many appraisers under 40, including recently designated MAIs.

In dramatic contrast, when I go to residential oriented events, there are relatively few under the age of 40. Many are over 60. There have been very few new residential appraisers since 2008 because AMCs will not allow trainees to sign on their own.

Number of appraisers - declining vs. stable to slightly declining

Since 2008, the number of residential appraisers has declined as very few trainees have been hired, appraisers quit or retire due to AMC hassles, and baby boomers are retiring.

The number of commercial appraisers may have changed a little with retiring appraisers, but not as much as residential.

Type of clients - few vs. many

The majority of residential appraisers only do lender work and maybe a few non-lender appraisals.

Commercial appraisers, including myself, have lots of non-lender work options. I have not done any lender work since 2005. The types of non-lender clients vary widely: insurance companies, government, eminent domain, etc. Attorneys need appraisers for many purposes: expert witness testimony, estates and trusts, divorce, arbitration, etc.

Type of properties appraised - few vs. many

Residential appraisers only appraise 1-4 unit properties. Commercial appraisers appraise all the other types of properties: mixed use, retail, hotels, vacant land, etc. Some also appraise 1-4 unit properties, such as myself

Size of appraisal firms - one person vs. larger companies

Because AMCs approve and hire individual appraisers, most residential firms have one appraiser plus maybe a trainee.

Commercial appraising has shifted to larger firms, who tend to dominate lender appraisals. Large commercial real estate brokerage firms, such as CBRE (formerly CB Richard Ellis) have staffed up their appraisal divisions, including hiring trainees.

There are fewer small one-person appraisal companies.

In the past, you started with a lender or another appraiser and then started your own business.

Trainees sign appraisal reports - no or yes

AMCs will not allow trainees to sign or cosign residential reports, although Fannie allows this. This is new, since AMCs took over.

FHA has never allowed trainees to sign reports, as far as I know. I hired my first trainee in 1986 and she was not allowed to sign FHA reports, but could sign all other lender reports. I would cosign or sign as reviewer.

Trainees have always been allowed to sign commercial reports, if the client approves. There are no regulations. Today, I assume that most lenders will want a general certified to sign the report, as cosigner or reviewer. This has not changed.

Licensing Yes

Previous to licensing, appraisers were hired based on their reputation or resume. Lenders had appraisal departments who checked them out and assigned the appraisals.

Licensing had a dramatic effect on both residential and commercial lender appraisers. State licensing was the primary criteria for hiring an appraiser.

Professional appraisal association membership - no vs. yes

Before licensing, membership in a professional association was important to get lender work. The chief appraisers often attended the meetings with lots of networking opportunities.

This all started changing in the early 90s when licensing became the primary criteria for giving appraisal work.

The value of a residential designation declined. Residential membership plummeted.

For commercial appraisers, an MAI designation was a significant advantage. To keep an MAI required membership in the Appraisal Institute.

However, a general certified license was fine for many lenders, so non-designated membership dropped.

We Don't Get No Respect

This is particularly true for AMCs. One appraiser is the same as another: residential certified.

On the other side, local real estate agents frequently respect my expertise on such topics as bedroom counts, how to handle basements, etc. This has not changed over time.

For commercial appraisers, quoting Jeff Hicks (above) there is a "Significant decline in respect."

Report types (and changes) - forms vs. narratives

For residential lending, the Fannie forms dominate. They started in the 1970s, standardizing report types. Even if your appraisals are not submitted to Fannie or Freddie, the forms are used by all residential lenders. The forms change over time, with the last revision in 2005. Also, the 1004mc form was added.

Data required for forms significantly changed with the adoption of UAD requirements. However, it only applied to loans being submitted to Fannie and Freddie.

My narrative commercial appraisals have not changed much since I started my business in 1986. I have been hearing about some additional lender report requirements, but they are minor compared with residential.

Client requirements - increasing substantially vs. few changes

Before 2008, lenders sent their requirements to the appraisers they used. If you worked for mortgage brokers, they typically worked for a few lenders. I had binders in my office for the lenders we worked for. Requirements did not change very often.

After 2008, AMCs took over. Client requirements kept increasing due to the recession. Worse, AMCs combined the requirements of all their lenders into one big list.

Commercial lender appraisers say there have been some additional requirement from some of their lenders.

Appraisal reviews - computerized vs. human

Residential - heavily computerized with lots of people calling. Sometimes there is an appraiser doing the reviews, but relatively rare and only On unusual properties.

Collateral Underwriter is the 'ultimate' software review, which underwriters use. Compare data from your appraisal with other appraisals.

Commercial - checklists sometimes used by non-appraisers. Reviews are done by experienced commercial appraisers.

Communication hassles - lots vs. few

AMCs - extensive calls, texts, emails. Requirements for frequent status updates on appraisal and response to questions.

Commercial lenders - sometimes a few questions.

Regulatory requirements, including GSEs - many vs. few

Fannie requirements are the "default" requirements, used by most residential lenders whether or not they sell to Fannie. These requirements change regularly.

FIRREA in 1989 had significant effects on commercial, but not much on residential, as the problem was with bad commercial loans.

Examiners for federal banking regulators sometimes find problems with residential and commercial appraisals.

Dodd-Frank had significant effects on residential and little or no effect on commercial.

Client relationships no and yes

Prior to 2008, many residential appraisers had established relationships with their lender clients. After 2008, there was very little, if any, relationship with AMCs. There were still relationships with direct lenders.

Commercial appraiser relationships have not changed much, except for computerized bidding.

Bidding and low fees - both

Commercial appraisers have been competing on fees for a very long time. Commercial appraisals were typically done with several bids solicited by lender appraisal managers.

The peak time for commercial appraisal fees was FIRREA (Finally I'm a Rich Real Estate Appraiser) in 1989. Commercial loans caused the crash and commercial appraisers were hired to appraise the foreclosed properties.

Automated bidding started in the Bay Area about 20 years ago when Wells Fargo started their online RIMS "bid board". I tried bidding a few times, but never got the job as someone was lower. More recently, I hear about inadequate information on the subject (no mention of excess land, etc.) causing problems. This type of bidding system is used by many lenders now, decreasing fees.

In the past it was worthwhile for a lender to get bids on a $3,000 commercial appraisal. It was too much hassle and time for residential bids.

Residential appraisers started competing on fees when AMCs took over, which had never happened. There are some local direct lenders who ask a their appraisers for fee quotes now.

Prior to 2008 residential fees changed very little over time, except gradually increasing. My SFR fees were $195 in 1986 and gradually increased to $350 by 2008. I don't recall any time when fees dropped, even when business was slow. When business declined, as it always does, appraisers tried to get more work by offering low fees, but this was not very successful. Lenders and mortgage brokers charge the borrower and did not compete on appraisal fees, a small amount of momey as compared with their profits from a loan.

Non-lender residential and commercial appraisals - not much has changed

No forms with UAD etc. No change with narratives.

No special requirements

Bids sometimes done. Fees COD or 50-50.

A few USPAP requirements, such as services performed in past 3 years, etc.

What does this mean for you?

Appraisals will always be needed. Think of how many properties you have appraised that won't fit CU or AVMs. I am sure lenders will change types of appraisals based on credit risk, but not everyone has AAA credit.

Ever since the first issue of this newsletter, in June 1992, I have been encouraging residential appraisers to do non-lender work. It is popular when business is slow, but most quit doing it. Even though business has slowed down and lots of appraisers hate AMC work, I have not seen much of an increase in fee competition. However, there are some places where lender appraisers are quoting very low fees.

But, if you do litigation support with court testimony, you will have very little competition. This is what I always recommend, but few do it.

The difference between lender and non-lender work has changed dramatically since 2008. I think it is an even better option today for residential lender appraisers.

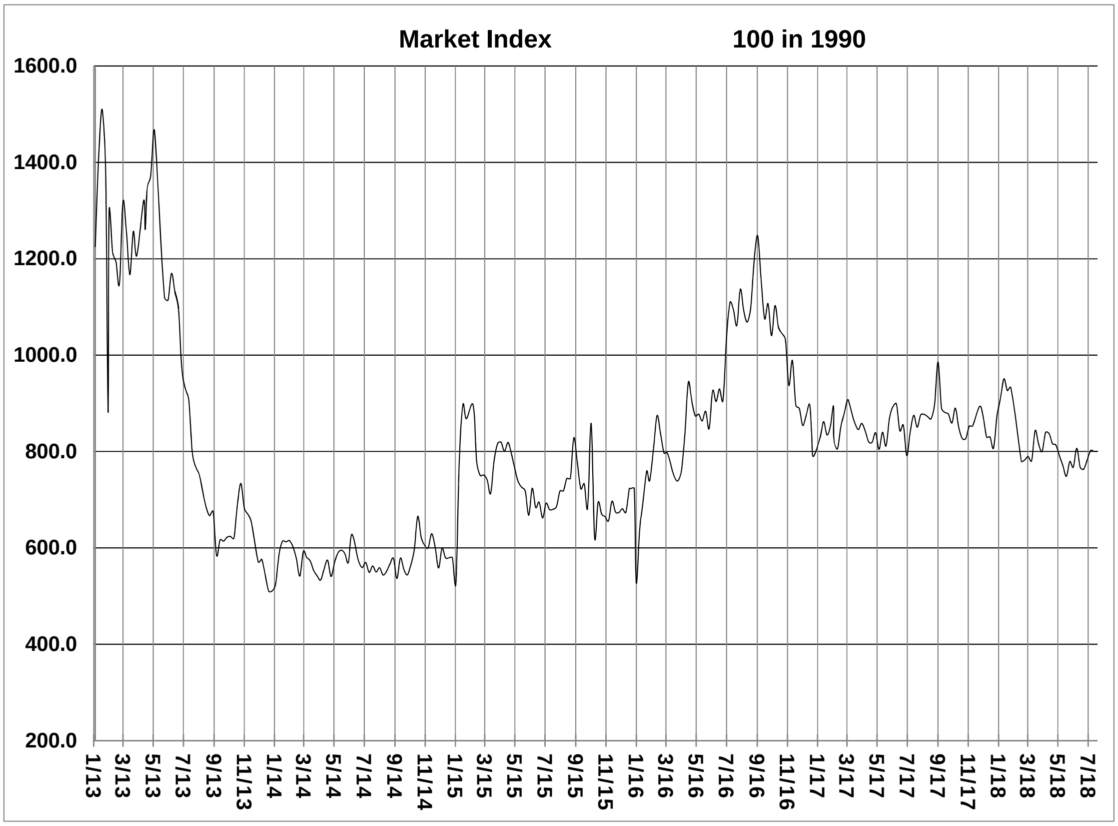
When business is slow, sometimes I get low fee competition but when it picks up, this goes away. I have not seen much competition since 2008.

Getting a general certified license greatly expands your lender and non-lender opportunities. Apartments are a good way to get started as many commercial appraisers (in my area) don't like to do them. Fees are significantly higher for commercial appraisals.

It takes the same amount of time to bid on a $400 appraisal as a $3,000 commercial appraisal. This year I have two $6,000 multi-property apartment appraisal jobs so far. I got the jobs by referral with no bidding. In the past I have done estate assignments with over 20 properties, from houses to small apartments, with fees over $20,000.

For those appraisers who only do 1-4 unit properties, this may be a good time to consider getting a certified general license.

In my opinion, 5+ unit apartments are easier than 2-4 unit properties and have much higher fees.



As you can see above, between 2013 and today, volume peaked in early 2013, declined, then peaked again in 8/16. The most recent peak was in early 2018. Today, it has declined and then came up a little and is down again. For many appraisers, volume started dropping in early 2017 and has been going up and down since then. The forecast is fewer loans in 2018 due to increasing interest rates. This is 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.

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