

Relocation Appraisals & Inspections

GSA Employee Relocation Resource Center
Government Relocation Forum
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Summary

- + Introductions
- + Current Market Perspective
- + Services Overview
- + Appraiser and Inspector Responsibilities
- + Best Practices
- + Questions & Answers

Current Market Perspective

+ Trends:

- Distressed Market
- Underwriting and Insurance Guidelines
- New ERC Form
- Buyers Market
- Price Deterioration
- Foreclosures, Pre-foreclosures, Short Sales, REO
- Tighter Lending Standards
- Importance of Inspections

Primary Purpose

INSPECTORS

- + Identify deficient structures and systems
- + Visually inspect and test structural components and major systems
- + Report defective items
- + Estimating cost to cure defects
- + Recommend repairs/inspections



APPRAISERS

- + Determine Anticipated Sales Price of property
- + Visually inspect interior and exterior
- + Identify items that impact marketability
- + Estimate the market impact on value as a result of defects
- + Recommend repairs/inspections



Differences in Approach

INSPECTORS

- + Inspect, test and assess the home's structure and systems
- + Report the condition based on established WERC inspection guidelines



APPRAISERS

- + Assume that structure and systems are operable unless a defect is **observed**, or they have knowledge or reason to suspect that one exists
- + Report the defect based on WERC appraisal guidelines



Appraiser Responsibilities

+ To Describe:

- Property and Improvements relative to comparables
- Neighborhood
- Market Conditions

+ To Determine:

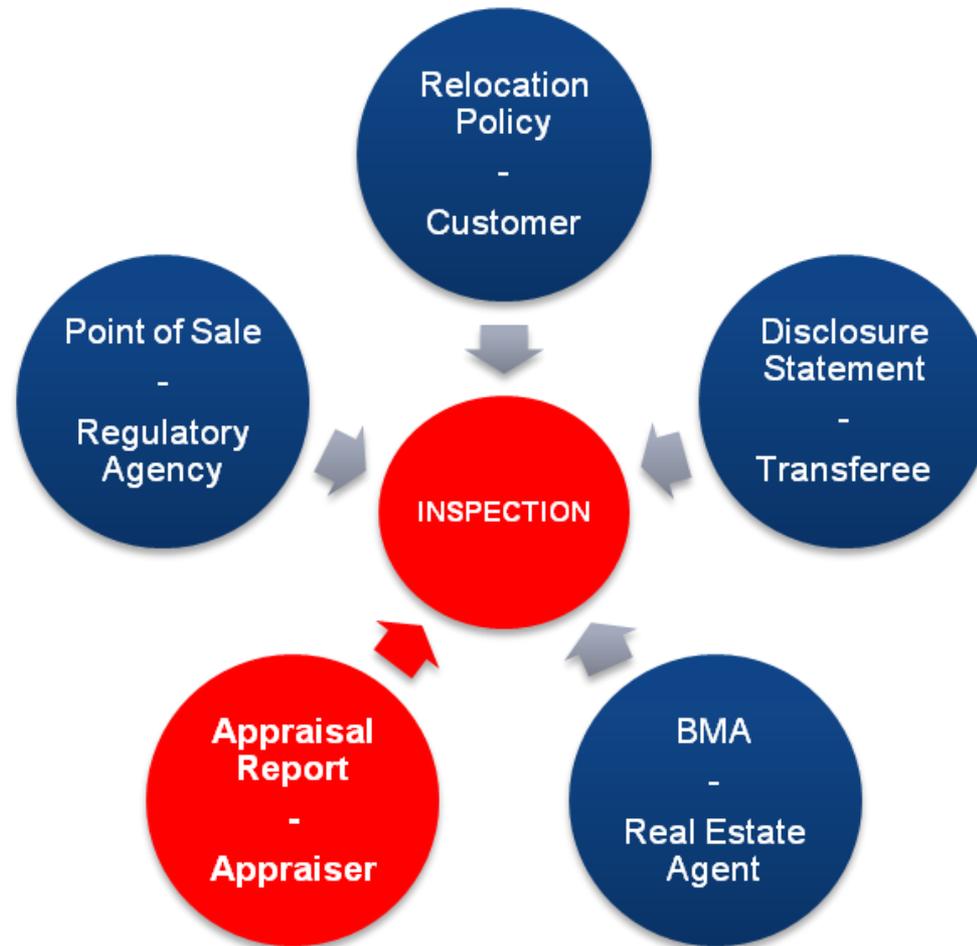
- Market Trends & Conditions using comparable sales and competitive listings
- Marketability of the Property
- Anticipated Sales Price per WERC guidelines

Appraiser Responsibilities

- + To Document/Recommend:
 - Inspections
 - Repairs & Improvements

- + To Identify:
 - Mandatory Inspections to Transfer Title

Origination of an Inspection



Inspector Responsibilities

- + Inspect Major Components
 - Roof
 - Heating & Air Conditioning
 - Electrical
 - Plumbing
 - Structure

- + Provide Additional Evaluations and Specialty Inspections

Inspector Results & Required Disclosures

- + Homeowner's Disclosure Laws
 - Known problems
 - Legally required (lead based paint)
 - Inspection findings

- + Marketability Impact
 - To fix or not to fix

Evidence of Settlement



The Value of Calling In an Expert

+ Scenario:

- Appraiser notes evidence of cracking/foundation settlement
- Appraiser recommends structural inspection
- Recommended Best Practice: Appraiser reports the defect and halts completion of the assignment pending inspection results*
- Appraiser completes appraisal with the information necessary to accurately adjust for the structural issue

Recommended Best Practice

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2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17 Date of Appraisal Inspection	18	19	20 Date of Value Opinion	21	22
23	24	25	26	27	28	29
30	31					

← **Not a new assignment** →

→



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New assignment

The Value of Calling in an Expert

Possible Outcome if Inspection IS NOT completed:

- + Structural problem not discovered
- + Value adjustment not made
- + Homeowner receives equity without consideration of as yet to be discovered problem
- + Homeowner released of responsibility
- + Property brought into inventory
- + Buyer's inspection results in discovery of structural problem
- + Buyer walks or demands repairs or financial concession
- + Relocation Management Company now bears cost of dealing with the problem
- + Cost of engineer's design solution
- + Extended time frame for getting contractors to bid project
- + Time out of market while repairs are made
- + Cost of repair / construction
- + Increased holding costs

Possible Outcome if Inspection IS completed:

- + Structural problem is discovered
- + Client is notified, appraisal placed on hold
- + Structural engineer inspects the foundation and determines that the structural integrity of the home has been compromised and that the defect must be cured.
- + The cost to cure is estimated to be \$25,000.
- + Value adjustment made- Extraordinary Assumption
- + Policy reviewed for homeowner options
- + Homeowner required to repair or accepts lower buyout
- + Problem addressed prior to inventory / resale
- + No surprise repair costs, increased holding costs, repair costs, etc.
- + Relocation management company protected from downstream liability
- + Responsibility for problem lies with the proper party; the homeowner

“As Is” and “Client Instruction”

Appraisal will be completed “**as is**” unless specific client instruction is received **prior** to the Date of Value Opinion

- + The Anticipated Sales Price is based on an analysis of the home as it appears on the Date of Appraisal Inspection
- + Extraordinary Assumption assumes that no changes have occurred to the subject between the Date of Appraisal and the Date of Value Opinion
- + Appraiser may reflect both the cost to cure any defects as well as any impact on marketability in the Sales Comparison Analysis
- + This is **not** “double-dipping”

“**As repaired**” is one example of a specific client instruction and must be established **prior** to the Date of Value Opinion

- + The Anticipated Sales Price is based on the assumption that any defects / improvements have been completed as of the Date of Valuation
- + Hypothetical Condition assumes that all repairs / improvements will be completed in a workmanlike manner, in accordance with the Description of Improvements (page 3) and any contractor / engineer documentation provided to the appraiser
- + Appraiser will not reflect the cost to cure in the Sales Comparison Analysis, but may reflect the impact of the repairs / improvements
- + The repairs / improvements may have a positive or negative impact

Appraiser's Limiting Conditions

+ (Excerpt from Limiting Condition # 5)

“Unless otherwise stated in the appraisal report, the appraiser has **no knowledge of any hidden or unapparent conditions ...**

... and has assumed that there are no such conditions and **makes no guarantees or warranties, expressed or implied, regarding the condition of the property.**”

Defect Categories & Appraiser Responsibilities

+ Obvious

- Should be identified by the Appraiser

+ Suspected

- May be identified by the Appraiser

+ Hidden

- Will not be identified by the Appraiser

Defects Categorized

Obvious

Suspected

Hidden

	Obvious	Suspected	Hidden
	Items an appraiser would obviously identify during the course of an inspection	Items an appraiser may identify during the course of an inspection: Appraiser is not required to go on roof, into attic, crawl space, or to inspect mechanical systems	Items an appraiser will not identify: A qualified home inspector would identify these items based on expertise and inspection requirements
Roof	Hole in roof	Curling and / or missing shingles	Condensation in attic
Foundation	Large cracks or bowing in the foundation walls. Large cracks and / or heaving in the basement floor. Standing water	Masonry veneer separating from house, separation of basement floor from foundation walls. Water stains on foundation walls	Clogged / crushed drain tile, evidence of foundation failure in a crawl space
Electrical	Missing or damaged panel or plate covers, exposed wiring, flickering lights, missing GFCI outlets	Corrosion in electrical panel, non-functioning switches, Federal Pacific panel box, knob & tube wiring.	Aluminum wiring, ungrounded outlets, overloaded circuits, improper grounding

Impact of Material Defects

- + Appraiser must consider any defects or improvements from the standpoint of the typical buyer – Market Reaction
- + “As is” value is based on readily observable defects as of the Date of Appraisal Inspection
- + “As repaired” value assumes any known defects or improvements were professionally corrected or completed as of the Date of Value Opinion
- + Adjustments for cost to cure reflect market reaction and may not necessarily be a dollar for dollar adjustment
- + The new WERC appraisal form now identifies the cost to cure as a range as opposed to a specific dollar amount

Key Developments in Inspection

- + Imported Corrosive Drywall
- + Stucco Claddings
- + Mold

Recommended Best Practices

- + Ensure Properties are Properly Listed
- + Avoid Out-of-Network Appraisers
- + Limit the Appraiser List
- + Obtain Homeowner Disclosure Statement
- + Know the subject and subject community, Point of Sale Inspections, financing eligibility
- + Forecasting Period not to exceed 120 days
- + Conduct Inspections on ALL Properties
- + Confirm Property Inspection Completed

Questions