

An overview

How does one determine the true value of property? It's a valuable question.

And to best understand property valuation we asked Gary Ward, the Chief Appraiser for Summit Valuations, who has 15 years of national valuation experience.

First, Mr. Ward states we need to understand that the traditional lending process has changed; Banks and Saving & Loans use to originate the loan, appraise the property, keep the loan, and if the property defaulted their collectors twisted the homeowner's arm for payment.

All that changed when the Fair Collections Practices was enacted. Now private securities markets originate loans; national valuation companies appraise the properties; and loans are sold on secondary markets.

Nevertheless real estate is cyclical, and unfortunately the defaulted foreclosures are making it difficult for originators to sell loans.

Hence, property valuations have become sophisticated, causing lenders and secondary markets to do their due diligence with valuation before funding a loan or buying a portfolio.

*A nickel ain't worth
a dime anymore.*

~ Yogi Berra

3 types of property valuation

1. Residential (1-4 units)
2. Commercial (strip malls, 5+ unit apartment buildings)
3. Industrial (warehouse, manufacturing plants and R/D).



Industrial values focus more with property performance, its rent ability, if the property is empty or if it has a tenant.

6 reasons for property valuations

1. Loan Originators (banks, private equity groups, mortgage companies) order property valuations prior to funding.
2. Loss Mitigation departments need property valuations with short sales and loan modifications.
3. If the property is being sold at a Trustee Sale, many potential bidders have property valuations done prior to the auction.
4. Asset Managers order valuations on REOs.
5. Private Security companies request valuations on portfolios.
6. To lower property tax, some homeowners reappraise their property.

Industry due diligence

Due diligence has everything to do with confirming the property valuation. Before approving a loan, lenders review valuations in the following two ways:

1. **Field Review:** A person inspects the property and compares comps.
2. **Desk Top Review:** This electronic process includes reviewing public records, the MLS and maybe the Automotive Valuation Model (AVM); a mathematical approach based on past, present and future property values.

Portfolio Purchasers use AVMs to see if any properties fall outside a percentile, and the County Assessor uses AVMs prior to raising taxes.



Investor due diligence 3 simple tips

1. Use common sense. If something sounds too good to be true, generally it is.
2. Ask a Broker for a comparative market analysis. **Note:** they may charge you.
3. Look at the quarterly Housing Price Index (HPI) report from the Office of Federal Housing Enterprise Oversight.

What's the benefit of an HPI?

HPI is a broad measure of housing market trends. It analyzes the average price change in repeat sales or refinancing of a single-family property with a conforming mortgage that has been purchased or securitized by Fannie Mae or Freddie Mac since January 1975.

Appraisals vs. BPOs

The Appraisal and Broker's Price Opinion (BPO) create the fair market value of a defaulted property. Each use different approaches yet together they act as a back-to-back tool with the goal of having a 10-15% difference.

Appraisers are licensed with E&O Insurance making their finding accountable. The house is measured, property is inspected and recent sales are used to support their findings.

The Realtor's BPO is not held accountable. They review the property; take pictures of it and offer a Comparative Market Analysis.

The appraisal says if the market is dropping. The BPO states the percentage it dropped.

The appraisal shows recent sales. The BPO shows three recent sales and local listings.

The appraisal cannot include discriminatory information (graffiti, drug zone, board ups etc). The BPO can.

The Appraiser does not know the defaulted balance of an REO, but the Broker does.

The Appraiser cannot forecast value; rather they determine it thru a broader spectrum by matching like properties, using the HPI and comparing market data in a 10+ mile radius.

The BPO uses the MLS to indicate market movement. They will show comparative listings, days on market and price movement.