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SOLUTIONS

OPTIONAL CASE STUDY SOLUTIONS

Overview

Seminar Description

In 1977, the Freddie Mac average annual mortgage loan interest rate was about 8.85%, but by 1981 that average 30-year fixed rate had climbed to 16.63%.¹ Because of rapidly increasing interest rates, the question on a lot of people's minds in 1980 was, "How is this impacting real estate?" In 1980, the president of a local savings and loan called a young appraiser and asked him a few questions. The banker said to the appraiser: "In 1979, you appraised the house at 12345 Green Street for \$205,000 and on that appraisal form you said the market was in balance and prices were stable. Now, here in 1981 we have foreclosed on that home and you appraised this same property for \$175,000 and you again said the market prices are stable and supply and demand are in balance. However, I have talked to five real estate brokers and they all say the market is seriously oversupplied and prices are falling. I need to know what the market is actually doing and I don't think I am getting that from you. If you want to continue to do our work, you must give me contemporary market data so we know what the market is doing. I don't want to know what happened six months ago, I need to know now."

That appraiser immediately started to add a comparison of active listings and closed sales for the 12 months prior for the subject market segment to each and every appraisal report and, when it was over six months' supply, in most cases he checked the oversupply icon.

Until the age of the computer, the health of a market was more or less determined by word of mouth, largely with real estate brokers. But since the computer age, market supply and demand can be read with less effort and more accuracy and in the last few years more quickly and with much more focus. This seminar will attempt to illustrate some of the ways appraisers can find, organize, analyze, and present data in support of their opinions and do it efficiently and quickly. The last part, "quickly," is especially needed in times of turmoil when clients are asking, "How is that market changing?"

In 1970, the best MLS systems published all the data in a printed book. Today, the modern MLS systems allow downloading massive amounts of data that can be analyzed and presented by knowledgeable appraisers, but it does take a while to do that. The goal of this seminar is to show how to do it quickly and narrowly focused on the subject's market. Appraisers no longer have to accept quarterly data for entire metropolitan areas published by the National Association of REALTORS® or Case Schiller® to support their opinions. Data can be very current and focused.

Appraisers experience considerable pressure from clients, lenders, and regulators to do appraisals quickly and at low cost. Clients expect fast service but they also want reliable information and risk assessment. How can appraisers meet the expectations of clients for faster and lower-cost service but still provide reliable and relevant information to them? This seminar attempts to answer that question.

1. <http://www.freddiemac.com/pmms/pmms30.html>

Part 1 defines the terms, discusses what supply and demand in the housing market mean, and explains the difference between supply and demand for housing vs. supply and demand in the available listings. In other words, the housing market can include mobile homes, hotels, apartments, and condominiums. The available supply consists of just those units offered for sale. Defining the terms is important.

Part 2 addresses the reasons why appraisers should care about market analysis and how it supports a highest and best use conclusion. The USPAP requirements for market analysis are addressed also. Many appraisers ignore this part of the appraisal process at their peril because sometimes it is the most important part of the appraisal.

Part 3 is focused on the various methods of extracting, interpreting, and presenting market supply and demand factors and how these can be good or bad. It addresses anecdotal evidence and statistical evidence and why the former should be avoided and the latter is more reliable in most cases. Remember, in the 1970s all an appraiser could do to get an indication of market health was to ask the participants what has changed.

Part 4 presents several reports that appraisers can develop from some MLS systems or other databases as well as many reports that are common in MLS systems. It will introduce reports that can be as geographically specific as a Zip code or even a block or two and as recent as yesterday. This discussion will be somewhat local since not all MLS systems operate in the same way. The material also covers the need to read and interpret these reports and how they may or may not make the appraisal report consistent.

Part 5 introduces some statewide and national databases that produce market reports of significance to appraisers, but these lack the geographical specificity that the MLS reports have and they are usually at least 30 days behind the market. Nevertheless, they do show trends and are often quoted by the media.

Appendix A consists of an optional case study involving a residence used as a Bed & Breakfast.

Appendix B covers Using MLS Data: How to Download, Organize, and Present Data from MLS Systems.

USPAP References in This Seminar

All references in this seminar to the Uniform Standards of Professional Appraisal Practice (USPAP) are taken from the 2020–2021 edition (Washington, D.C.: The Appraisal Foundation).

Learning Enhancements

The seminar has been designed with a variety of elements to enhance your learning experience.

- **Preview.** To give you a taste of what is to come, the *Preview* page that begins each part includes a brief overview of the content, learning objectives to consider as you move through the content, and, where appropriate, learning tips that will assist you in understanding the material you're about to cover.
- **Learning Objectives.** Each learning objective covers information required for understanding the concepts in the seminar. Look them over before the part begins so that you have a frame of reference as you move through the material. At the end of each part, reread the objectives. Are you able to do what is stated? If not, this is the time to ask your instructor for help or review the concepts that you do not understand.
- **Discussion Questions.** To supplement the discussions, we've included scenarios to help you apply what you are learning.
- **Review.** Each part concludes with a *Review* page, which repeats the learning objectives and, where appropriate, lists key terms and concepts that have been covered.
- **Solutions.** Answers to the Discussion Questions are provided behind the Solutions tab at the back of this handbook.

Recommended Equipment

- Laptop or pad device that can access the local MLS

Classroom Guidelines

To make the seminar a positive experience for everyone attending, we have some guidelines for your consideration:

- 100% attendance is required. No exceptions.
- Limit use of computers and wireless devices to classroom projects.
- Communicate with business associates during break time instead of class time.
- Put away reading materials such as newspapers and books that are not used in class.
- Silence cell phones and other communication devices.
- Use recording devices only if prior permission has been granted.
- Refrain from ongoing conversations with those seated near you and other distracting behavior.

Learning Objectives

The objectives of this seminar are to

- Illustrate the requirement that market value appraisals include a market analysis.
- Illustrate how to quickly extract, compile, analyze, and present the data in a way that the intended user can understand.
- Show appraisers how to ensure that the market analysis discussion is consistent with the other parts of the report.
- Define the terms appraisers commonly use in market analysis reports.
- Illustrate the requirement for a market in the term *market value*.
- Introduce concepts that will help the appraiser differentiate between a neighborhood and a market.
- Illustrate some pros and cons of the various tools used for market analysis by residential appraisers.
- Demonstrate the use of some statistical tools available from various sources to support the appraiser's opinion of market supply and demand and to support the highest and best use conclusion.
- Introduce some local, statewide, regional, and national databases to assist in analyzing supply and demand.

General Information

- **Breaks.** There will be two 10-minute breaks during the morning session and two in the afternoon session unless noted otherwise by the seminar sponsor.
- **Attendance sheets** will be distributed during class to verify your attendance during the session.
- **Certificates of completion** can be downloaded from the Appraisal Institute website after completing the evaluation of the instructor and seminar material. You must log into your account and go to Education and Events tab to find the seminar listed and click on the view tab to the right of the class title. Remember that attendance during the entire seminar is required.