THE RELOCATION APPRAISAL

DEFINING THE DIFFERENCES

BY PAUL M. LEWIS

As a professional with more than 25 years of experience in all types of residential appraisal work, I believe that relocation appraisals may be reviewed more thoroughly and by more parties than any other type.

Worldwide ERC®'s "Relocation Appraisal Guide" notes that "an understanding of relocation appraisal concepts and proper completion of the Worldwide ERC® Summary Appraisal Report are integral elements in developing an opinion of the anticipated sales price for a relocating employee's home and in building better lines of communication among all persons involved in the relocation appraisal process."

In that spirit, I offer some perspectives on the fundamental differences between a relocation appraisal and other residential appraisal types with which you or your transferring employees may be familiar—mortgage lending, refinancing, or insurance-related appraisals, for example—and why good communication among all involved is so important.

MORTGAGE APPRAISAL VS. RELOCATION APPRAISAL

MORTGAGE	RELOCATION
To facilitate mortgage lending.	To facilitate corporate relocation.
Opinion of market value.	Opinion of anticipated sales price.
Market value: Exposure time precedes date of appraisal.	Anticipated sales price: Marketing time occurs after date of value opinion.
Long-term decision-making: up to 30 years.	Short-term decision-making: up to 120 days.
Uniform Residential Appraisal Report: comprehensive analysis.	Worldwide ERC® Summary Appraisal Report: expanded analysis of market data.
Identifies category for "design" and "appeal."	Emphasizes "appeal" and "décor" as critical items for consideration.
No financing adjustments for normal seller costs.	Adjustments for sales and financing concessions.
Retrospective analysis, no forecasting.	Prospective analysis, forecasting.
Normal marketing time, without limit.	Assignment marketing period, not to exceed 120 days (or as instructed by the client).

Significant changes have occurred in the real estate, lending, and talent mobility industries between the initial launch of and subsequent updates to the Worldwide ERC® industry standard Summary Appraisal Report and corresponding guide. But its core purpose, components, and the Uniform Standards of Professional Appraisal Practice (USPAP) guidelines, with which the report complies, have stood the test of time and remain relevant today.

As the use of online data and electronic communications and transactions continues to grow, appraisers may be one of very few, or even the only, representatives of the client or relocation management company (RMC) whom transferring homeowners and their families meet in person. I'm often viewed initially with a bit of skepticism and mistrust, particularly by those experiencing a job-related move for the first time, for whom the relocation process is quite new. So, it's important for me to take the time to thoroughly and professionally explain the process and the fundamental differences in a relocation appraisal, including:

- The ultimate intent of the report and the parties it is designed to serve.
- The reporting forms and definitions.
- The level, extent, and period of time of the required analysis.

INTENT AND END USERS

Let's start with intent. A mortgage appraisal's ultimate goal is to determine a property's current market value and assess the level of financial risk to the lender. In contrast, the relocation appraisal is but one component of an employee home purchase program in which an employer will purchase the home under specific circumstances that vary from company to company. The appraiser is charged with estimating an anticipated sales price within a defined marketing period. In those instances when the employer—or an RMC acting on the employer's behalf—purchases the employee's home, the purchase offer is based upon this anticipated sales price. Most often, the anticipated sales prices of two relocation appraisals are averaged to calculate the offer amount. (Worldwide

ERC® members can read about home purchase programs in more detail in the Worldwide ERC® Tax & Legal MasterSource.)

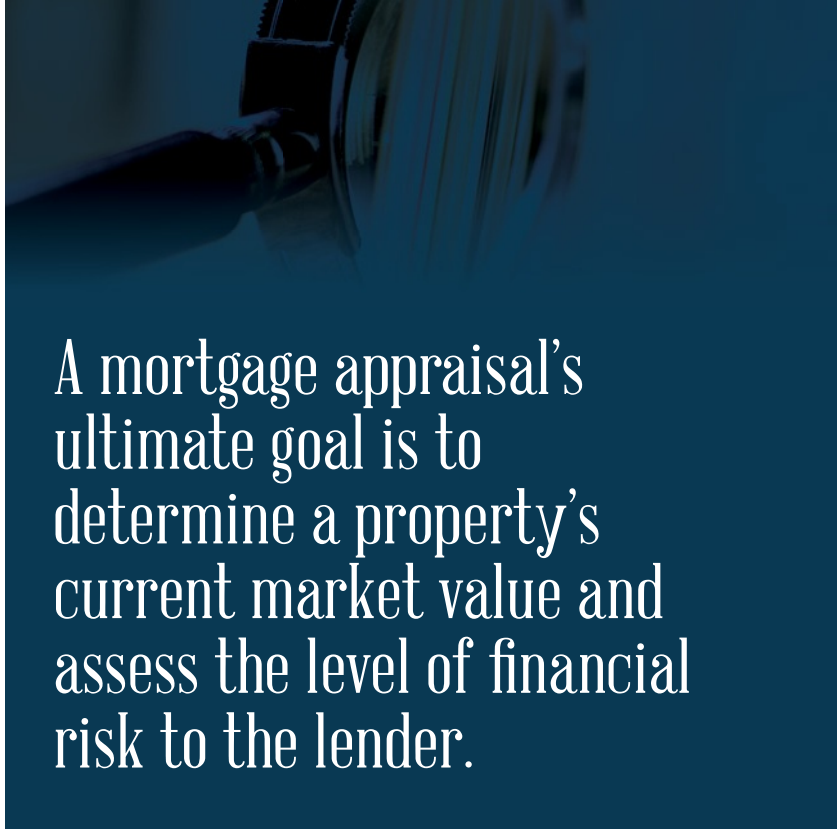
A lender is looking at a longer-term decision, generally for the purpose of approving a 15- or 30-year mortgage, with the home as collateral. The parties ordering a relocation appraisal are looking to determine a realistic sales price within a much shorter window, generally 90 to 120 days from the time the valuation is made. While the report is likely to be shared with the homeowner-transferee, the primary audience it is intended to serve is the RMC and its client, the employing organization for which the transferee is working or will work in the new location.

FORMS AND DEFINITIONS

Mortgage appraisals are often submitted via the Uniform Residential Appraisal Report (URAR) or an abbreviated version of it, depending on the circumstances. The Worldwide ERC® Summary Appraisal Report calls for a much more robust, detailed analysis, including narrative portions throughout and requiring a greater level of reporting. Some clients do not get a home inspection unless it is recommended by the appraiser. In this circumstance, an experienced appraiser can be critical with regard to potential liability.

Additionally, mortgage appraisals focus on the subject property's condition, design, and general appeal. A relocation appraisal requires evaluating those aspects as well, but also reports on internal décor, working appliances, any necessary repairs or improvements recommended for market competitiveness, and any construction upgrades or deficiencies. If the appraiser identifies any concerns, he or she also includes an estimate of the costs to repair or improve them.

Financing considerations will also be different in a mortgage and a relocation appraisal. A mortgage appraisal requires establishing the cash equivalency to normal seller costs, with adjustments made to the comparable sales only if there are special or unusual financial or sales concessions. A relocation appraisal must consider the cash equivalency of comparable properties, as well as any adjustments, which could include concessions such as seller-paid points or assistance with closing costs. Here, the biggest difference is that the Worldwide ERC® report views the net transaction value, not just the sales price.



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ANALYSIS AND MARKETING PERIOD

An important distinction in a relocation appraisal is the determination of anticipated sales price. How we make that determination incorporates perhaps one of the most distinctive aspects of the relocation appraisal: the concept of forecasting. Worldwide ERC®'s form defines forecasting as "the process of analyzing historical trends and current factors as a basis for anticipating market trends. (In order to reflect any impact these trends will have on the subject property's marketing time and sales price, a forecasting adjustment must be consistently applied to each comparable sale.)"

In other words, to determine the most realistic price, relocation appraisers analyze what has happened in the past compared with the current market and form an educated opinion as to what will happen during a predetermined marketing period, the length of which is typically set by client policy.

Other items to consider in developing the forecasting adjustment include seasonal conditions, the number of competing properties, how long they have been on the market, and any changes in their listing prices; the rate of absorption (the average number of sales per month divided by the total number of available homes), and the average number of days on market; any expired or withdrawn listings; the ratio of sales prices to listing prices in the market; and economic and demographic trends. In rapidly changing markets, this gets even more challenging, as appraisers must predict just how quickly the market will go in one direction or another.

APPRAISAL REPORT WRITING CONTEST

The *Mobility* editors note and recognize that Paul Lewis was the 2018 recipient of a joint Worldwide ERC® and Relocation Appraisers and Consultants Inc. (RAC) Summary Appraisal Report Writing Contest Award.

Submissions to the annual contest are redacted, so that the judges, who are report reviewers from relocation management companies, do not know the identity or location of the entrants and private or identifying information about subject properties is respected.

Each section of the reports is evaluated by judges for:

Completeness: Whether all necessary information was included, and whether exhibits were useful and comprehensive.

Clarity of communication: Descriptions required to render a good understanding of the elements being defined were well-written, organized, and easily understood.

Thoroughness: Whether the appraiser researched all of the important market factors that impact the analysis.

Internal consistency: Ensuring that all the facts presented in the report led to the conclusions and recommendations expressed by the appraiser.

Complexity of the assignment: Determining whether the report identified and communicated unique marketing challenges and offered adequate justification for adjustments for unique or unusual challenges.

Appraisers interested in competing in the 2019 Appraisal Report Writing Contest should look for details and submission deadlines, coming later this summer on *worldwideerc.org* and *rac.net*.

The maximum marketing period set by the client, vis-à-vis current market conditions, is an important part of the forecasting process, as it can play a significant role in whether the adjustment will be positive, negative, or zero. In a stable or strong market, a forecasting adjustment of zero is most common. In more challenging conditions, such as those caused by seasonal or significant economic factors, if the expected market exposure is anticipated to be longer than the maximum marketing period defined by the client, a negative forecasting adjustment is warranted. Similarly, in markets that are rapidly heating up and in which we see low inventory and high demand, a positive forecasting adjustment may be necessary. From my own experience, positive adjustments are rare—I have applied a positive forecasting adjustment only once over the course of conducting hundreds of relocation appraisals. Unusual market conditions or external developments, such as large companies announcing the opening of a new facility in the region, for example, and the corresponding assumption of an influx of homebuying employees with it, can prompt an upward forecast.

The forecasting component is often the most challenging and least understood variable of a relocation appraiser's work, as there is no mathematical formula that will result in two appraisers arriving at the exact same adjustment. The accuracy of the conclusion is also not verifiable by current market data, just the test of time.

In essence, a relocation appraisal is significantly more detailed, nuanced, and time-consuming than many other appraisals, but it provides appraisers with an opportunity to showcase unique levels of market knowledge, professional analysis, communication skills, and customer service to the many different parties involved in the process. *M*

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