



# Relocation Appraisals & Inspections

Prepared for:

Greater Washington ERC

June 16, 2010

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# Summary



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



## + Trends:

- Buyers Market
- Price Deterioration
- Negative Equities
- Foreclosures, Pre-foreclosures, Short Sales, REO
- Tighter Lending Standards
- Importance of Inspections

# Primary Purpose



## APPRAISERS

- + Determining Anticipated Sales Price of property
- + Estimating the market impact on value of defects
- + Visually inspect interior and exterior
- + Identify items that impact marketability
- + Recommend repairs/inspections



## INSPECTORS

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



# Differences in Approach



## APPRAISERS

Assume that structure and systems are operable ***unless*** a defect is observed, or they have knowledge or reason to suspect that one exists and reported based on ERC appraisal guidelines



## INSPECTORS

Inspect, test and assess the home's structure and systems, and report the condition based on established ERC inspection guidelines





## + To Describe:

- Property and Improvements relative to comparables
- Neighborhood

## + To Determine:

- Market Trends & Conditions using comparable sales and listings
- Marketability of the Property
- Anticipated Sales Price in “As In” Condition



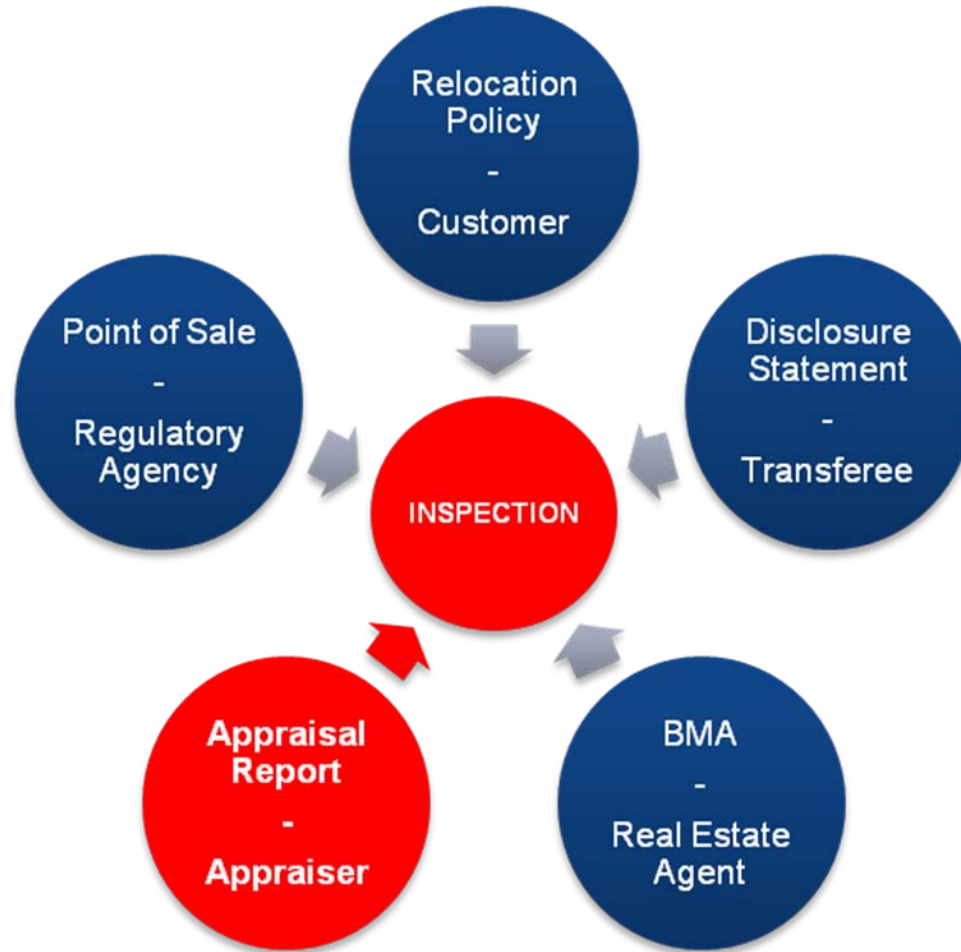
## + To Document/Recommend:

- Inspections
- Repairs & Improvements

## + To Identify:

- Mandatory Inspections to Transfer Title

# Origination of an Inspection





## + Inspect Major Components

- Roof
- Heating & Air Conditioning
- Electrical
- Plumbing
- Structure
- Siding

## + Provide Additional Evaluations and Specialty Inspections



## + Homeowner's Disclosure Laws

- Known problems
- Legally required (lead based paint)
- Inspection findings

## + Marketability Impact

- To fix or not to fix



## + Scenario:

- Appraiser notes evidence of cracking/foundation settlement
- Appraiser recommends structural inspection
- Appraiser receives inspection results and adjusts value accordingly
- Appraiser completes appraisal with the information necessary to accurately adjust for the structural issue

# Evidence of Settlement



# 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 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
- + 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



+ (Excerpt from Page 6 of the ERC Report)

“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.**”



## + 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
	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 onto the roof, in attics, crawl space, or inspect the plumbing or electrical	Items an appraiser will not identify; A qualified home inspector would identify these items based on expertise and inspector requirements
Roof	Hole in roof	Curling and/or missing shingles	Condensation in attic
Foundation	Large vertical cracks in foundation walls; Bowed flooring; Standing water in basement	Masonry veneers separating from house; Springy flooring; Water stains on foundation block	Separation between basement floor and foundation walls; Separation of sub-floor from joists; Wall bulging
Electrical	Electrical panel cover missing; Flickering lights; Missing GFCIs	Corrosion in electrical panel; Non-functioning electrical switches; Federal Pacific panel box	Aluminum wiring, ungrounded outlets; Circuit-overloading; Improper grounding

# Impact of Material Defects



- + Standpoint of the prospective buyer
- + Value “as is” based on “readily observable” defects
- + Condition adjustments to reflect reactions of the typical buyer
- + Cost to cure

# Material Defect Example



Original property appraisal in “as is” condition with condition adjustment for roof concern	\$193,000
(Marketability impact)	(7,000)
Appraised value conditioned on roof repair	<u>\$200,000</u>

If actual cost to repair roof is \$10,000, the appraised value does not increase.

# Key Developments in Inspection



- + Chinese 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
- + Forecasting Period not to exceed 120 days
- + Conduct Inspections on ALL Properties
- + Confirm Property Inspection Completed