How the Relocation Appraisal Differs from Other Appraisals

MOBILITY Magazine, April 2001

By Alvin "Chip" Wagner III, SCRP, SRA, IFA

Wagner describes the essential differences between a relocation appraisal and a mortgage appraisal in areas such as reporting format, intended use, value definition, and comparables, among others. The article is intended for the relocation professional and the transferee.

"I just had an appraisal done a couple of months ago when I refinanced my home. Why do I need to have another done now that I am being transferred?"

Most real estate professionals who specialize in the relocation industry probably have heard a question similar to this from a transferee. Although the answer is very important, it is not always an easy one for the non-appraiser to answer. The relocation appraisal is an essential component of the relocation process, and transferees need to understand the differences in the types of appraisals.

A professional real estate appraiser is a specialist who follows the same set of steps on every appraisal assignment. This is called the appraisal process. Every appraisal requires the same organized collection and analysis of data. After the research is complete, the appraiser must choose a format for presenting the report. The appraiser can select a narrative-style report or a form-style report, depending on the type of property and the intended use and purpose of the appraisal.

The most common reason for a real estate appraisal of a residential dwelling is mortgage loan underwriting (both purchase and refinancing). A standardized form report called the Uniform Residential Appraisal Report (URAR) is the most common form, although various new abbreviated forms have been introduced and have become popular in the residential loan underwriting market in recent years.

Appraisers may use the URAR for other purposes including, but not limited to, private mortgage insurance (PMI) removal, estate/trust valuation, divorce, estimated market value for buyers or sellers, insurance, tax appeal, and foreclosure appraisals.

The 2001 Employee Relocation Council Summary Appraisal Report is now in its fifth revision since its development and industry standardization in 1984. It is a form-style report that requires substantial narrative components and addenda to adequately address the clients' concerns and needs. It is different from all other types of form appraisal reports. To the non-appraiser, some of these differences are very subtle and others are very obvious but not completely understood.

The "Difference Between Mortgage Versus Relocation Appraisals" outline (See Figure 1.) was originally developed by ERC and ERC Appraisal Standards Council members and has been used in many seminars, courses, and training materials for years.

It has been updated for this article to reflect both the changes in the 2001 ERC Summary Appraisal Report and the latest Uniform Standards of Professional Appraisal Practice. The relocation appraisal has a specific set of definitions and guidelines for appraisers. These guidelines for the relocation appraisal differ substantially from other types of appraisals. This article will directly follow and address the updated outline.

Reporting format. The mortgage appraisal uses the URAR, a two-page form that is a comprehensive analysis of the subject property's site and physical characteristics (New abbreviated reporting formats approved by the lending industry allow for even shorter forms and drive-by opinions.). The relocation appraisal is completed on the ERC Summary Appraisal Report, a six-page report, which employs techniques similar to those used for the mortgage appraisal. However, the appraiser must provide a much higher degree of analysis in the narrative portions to complete the form.

Intended use. The mortgage appraisal's intended use is to assist the lender in evaluating a property for purposes of mortgage/bank loan underwriting. The intended user of a mortgage appraisal is the client, generally a bank or mortgage company. The intended use of the relocation appraisal is to help an employer facilitate the employee relocation process. The intended users of the relocation appraisal are the appraiser's client (relocation management company) and the employer. Although the report often is shared with the transferee, he or she is not an intended user.

Purpose. The mortgage appraisal is used to develop an opinion of the market value of a property. The relocation appraisal is used to develop an opinion of the anticipated sales price of a relocating employee's residence.

Value definitions. The two appraisal formats use different value definitions: The mortgage appraisal's definition is called "market value" and the relocation appraisal's definition is called "anticipated sales price."

According to the Uniform Residential Appraisal Report/Freddie Mac Form 439/Fannie Mae form 1004B, the definition of market value is:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeable and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale of a specified date and the passing of title from seller to buyer under conditions whereby:

- *buyer and seller are typically motivated;*
- *both parties are well-informed or well-advised, and each acting in what he considers his own best interest;*
- *a reasonable time is allowed for exposure to the open market;*
- *payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- *the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted*

by anyone associated with the sale.

According to the ERC Summary Appraisal Report/ERC Rev. 01/01, the definition of anticipated sales price is:

The price at which a property is anticipated to sell in a competitive and open market, assuming an arms-length transaction whereby:

- *the analysis reflects the subject property "as is" and is based on its present use as a residential dwelling;*
- *both buyer and seller are typically motivated: both parties are well-informed or well-advised and acting in what they consider their best interests;*
- *payment is made in cash or its equivalent;*
- *a reasonable marketing period, not to exceed 120 days and commencing on the date of appraisal (inspection), is allowed for exposure in the open market. The analysis assumes an adequate effort to market the subject property; and*
- *forecasting is applied to reflect the anticipated trend of market conditions and prices during the subject property's prospective marketing period.*

The primary differences in these two definitions are the marketing period, financing considerations, and the type of analysis (forecasting).

Marketing period. The mortgage appraisal's definition of market value states a "reasonable time is allowed for exposure in the open market." This opinion of value is without limit. For example, the property's marketing time could be under 30 days, or it could be over two years, of which the latter would not affect the property's final opinion of market value. The relocation appraisal's definition of anticipated sales price requires the appraiser to consider a *"'reasonable' marketing period, not to exceed 120 days and commencing on the date of appraisal (inspection), is allowed for exposure in the open market. The analysis assumes an adequate effort to market the subject property."* This means if a property's neighborhood or marketplace has typical marketing periods exceeding 120 days, the subject will need to be discounted through the forecasting adjustment.

Financing considerations. The mortgage appraisal requires cash equivalency with adjustments to the comparables if there are special or creative financing or sales concessions, but not for costs, which are normally paid by sellers as a result of tradition or law in a market area. The relocation appraisal requires the appraiser to reflect a cash equivalency price with adjustments to the sales prices of the comparables. Dollar adjustments should be made for concessions such as: seller-paid points, buyer's closing costs, interest rate buy downs, seller financing, or any other terms that influence the final sale price. These adjustments are not necessarily dollar for dollar and should reflect the effect on the sales price resulting from the concession.

Type of analysis. The mortgage appraisal considers a retrospective analysis, looking at historical data as of the date of sale (or inspection if the property did not sell) without employing forecasting. The relocation appraisal considers a prospective analysis, which employs a forecasting adjustment. According to the ERC Summary Appraisal Report, the definition of forecasting is: ...*"the process of analyzing historical trends and current* *factors as a basis for anticipating market trends. A forecasting adjustment is then applied to reflect any impact these trends will have on the subject property's marketing time and sales price."*

To arrive at a forecasting adjustment, the relocation appraisal provides extensive room for the appraiser to include narrative data on supply and demand and overall market conditions. Furthermore, the appraiser studies other factors such as absorption rates; current inventory levels in the region, immediate area, or price range; and current competition from new construction.

Decision making. The mortgage appraisal uses a long-term decision-making analysis for the life of the mortgage loan, sometimes up to 30 years. The risk generally is lower as lending institutions build a loan default ratio (foreclosure) into their loan portfolios. The relocation appraisal provides short-term decision-making analysis, typically a marketing period of as many as 120 days. The risk is very high because an accurate value in their short-term investment is a must, especially if a home makes it into a company's inventory. A corporate owner of a home typically is the most motivated seller in the marketplace.

Items for consideration. The mortgage appraisal identifies categories for the subject's condition, design, and appeal. These are most commonly considered "average" and "typical" in mortgage appraising assignments unless there are significant concerns about the subject property. The relocation appraisal emphasizes the following as critical items for consideration: condition, design, appeal, interior décor, and repairs/improvements. Condition includes modernization, restoration, repairs, and necessary improvements, whereas appeal includes construction upgrades or deficiencies, as well as custom or personalized decorating. The appraiser is asked to address all of these factors pertaining to the subject property in the relocation appraisal in a narrative format, as well as recommend repairs and improvements to enhance the property's marketability. If there are concerns, the appraiser is asked to estimate a cost to cure and address and approximate the market's reaction in the sales comparison grid section of the report.

Comparables. Perhaps the most obvious difference between the mortgage appraisal and the relocation appraisal is the use of comparables. A "comparable" is a similar property that the appraiser compares to the subject property. The mortgage appraisal requires three closed sales to compare to the subject. A common underwriting guideline is that these sales should have closed within the past six months and cannot have closed more than 12 months prior to the appraisal.

The relocation appraisal asks the appraiser to consider closed sales without limitation. Often, the best sale to compare the subject property to is a home that is the same model, located on the same street, that closed longer than 13 months ago, and that was personally inspected by the appraiser who is using the comparable.

One of the easiest adjustments for an appraiser to make and support is a market change/time adjustment. Furthermore, the relocation appraisal encourages the use of pending sales that are under contract if the information can be verified. Such information often indicates the most current market conditions. Finally, the relocation appraisal compares competing sale properties to the subject property. Appraisers use the competing properties to develop a competitive list price for the subject property and consider such properties when developing the final opinion of the anticipated sales price.

Photographs. The mortgage appraisal requires a front, rear, and street scene of the subject property and front view photos of the comparable sales. The relocation appraisal requires a front, rear, and street scene of the subject property; interior views of all rooms and baths in the subject property; photos depicting any adverse conditions and inspection concerns; photos of factors within view from the subject property that significantly affect marketability either favorably or unfavorably; comparable sales; and competitive listings.

Occasionally, some of the guidelines discussed in this article may be altered at the direction of a client who has supplemental guidelines.

Doing the Job Right

The relocation appraiser is asked to take sufficient time during the inspection to counsel and impart confidence to the transferee and communicate credibility and professionalism. The appraiser is frequently the sole visible representative of the client to the relocating homeowner. The appraiser is asked to accept any information the transferee presents and comment on this information if not used in the report. Because of the sophistication of modern housing and the typical profile of a transferring homeowner's property, the inspection and counseling is more extensive than it has ever been, often requiring more than an hour.

The appraiser who accepts a relocation appraisal assignment must take the time to write a competent report, discuss that report with the client, and respond to questions from the client. The relocation process is unique to other appraisals in that two or more professional reports are completed on the same property. Requests for review of data reported in another report also are part of the relocation appraisal process. During this review, the appraiser may be asked to analyze additional information to determine if it could have an effect on the original value conclusion.

Alvin "Chip" Wagner III, SRA, SCRP, IFA is president of A.L. Wagner Appraisal Group, Naperville, IL. He is 2001 president of the Chicagoland Corporate Relocation Council, member of the Relocation Appraisers and Consultants, and a member of ERC's *MOBILITY* Editorial Advisory Committee. He can be reached at chip@headrick-wagner.com.

Figure 1.

Differences Between Mortgage and Relocation Appraisals

Mortgage Appraisal	Relocation Appraisal
Reporting format: ***Uniform Residential Appraisal Report*** Comprehensive analysis	**Reporting format:** ***ERC Summary Appraisal Report*** Expanded analysis of market trends
Intended use: Facilitate mortgage lending	**Intended use:** Facilitate corporate relocation
Purpose: Develop an opinion of market value	**Purpose:** Develop an opinion of anticipated sales price
Value definition: market value Exposure time precedes date of appraisal **Marketing period:** Normal (without limit) **Financing considerations:** Cash equivalency, no adjustments for normal seller costs	**Value definition: anticipated sales price** Marketing time occurs after date of appraisal **Marketing period:** Reasonable (not to exceed 120 days) **Financing considerations:** Cash equivalency, adjustments for sales and financing concessions

Type of analysis: Retrospective analysis: no forecasting	**Type of analysis:** Prospective analysis: forecasting
Decision making: Long term (up to 30 years) Lower risk	**Decision making:** Short term (up to 120 days) Higher risk
Items for consideration: Identifies: condition, design, and appeal	**Items for consideration:** Emphasizes: condition, design, appeal, interior décor, repairs and improvements
Comparables: Requires closed sales	**Comparables:** Requires closed sales and competing properties and considers pending sales
Photographs: Subject's front, rear, and street scene; comparable sales	**Photographs:** Front, rear, street scene, and interior views of the subject property; any adverse conditions and inspection concerns; factors within view from the subject property that significantly affect marketability either favorably or unfavorably; comparable sales; competitive listings

Worldwide ERC® Headquarters
1717 Pennsylvania Ave. NW, Suite 800
Washington, DC 20006
Direct +1 202 857 0857
Fax +1 202 659 8631