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A focus on appraisals in a snap

The process of valuing homes, a time-consuming element of granting a loan, is being speeded up by a company that has set itself the task of creating photographs that will allow lenders to obtain the f

By Mary Umberger
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Ron Simmons is part of a team slogging its way from California to Chicago, one photograph at a time.

As the real estate appraiser and his colleagues inch down the streets of suburban San Francisco, they pause in front of every home and take its picture. One recent day he photographed 900 buildings in seven hours.

"It was a good day," said Simmons, though he says his feet hurt.

Simmons and half a dozen employees of his appraisal team in Antioch, Calif., have been on Northern California streets since February as part of a cross-country journey undertaken by Zaiio Corp., an upstart in the staid appraisal business that is tackling the mind-boggling task of photographing every building in every city in America. They arrive here next month.

"Our objective is to be photographing 100,000 [properties] a day before June 1," said John Ross, vice president for market development strategy for the Canada-based firm.

Digital photography has changed the way people chronicle their own lives, and it is transforming the way real estate business is conducted.

For the appraisal industry, technology is roiling the waters even more. Zaiio's emergence comes as traditional appraisers already are feeling pressure from AVMs -- automated value models -- which are essentially computer programs that blend assessor and market data to generate appraisals. No human appraiser visits the house.

Zaiio's plan -- which has its supporters, its skeptics and its critics, especially in traditional appraisal circles -- is to meld upward of 100 million pictures with assessors' data and its own valuations to create a nationwide database that can churn out certified property appraisals in an instant.

"It would happen about as quickly as the lender could type your address in," said Ross. He said the idea is to "preappraise" America's homes in order to compress the process for obtaining non-purchase home loans, such as refinances, into a few days.

"It could revolutionize the appraisal industry, no doubt about it," said Tinley Park appraiser Tim McCarthy, who is chairman of the Illinois Real Estate Appraisal Licensing Board. "They're taking appraisals and the art of valuation to a

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"But appraisers are conservative by nature, so we wonder if they can do what they claim."

What Zaio claims to be doing is automating the process while still incorporating the appraiser's judgment.

A kind of "instant appraisal" already is available in the marketplace in the form of AVMs, the best-known supplier of which is Zillow. But AVMs are based on algorithms of public data, and their critics say they are unreliable -- more an estimation tool than an appraisal.

Zaio, instead, is trying to reinvent the "drive-by appraisal," in which a trained appraiser visits the property, photographs it and evaluates its exterior, based on industry-accepted criteria.

Drive-bys are often used for refinancing, home-equity and other loans that typically do not call for the more rigorous, full-walk-through appraisals usually needed for a purchase loan. Producing a drive-by can still take a week, Ross said. And the delay sometimes derails deals that are well under way, as appraisals trickle in that do not match expectations, he said.

"Appraisals were at the end of the transaction instead of at the start," Ross said. "With this model, the lender will have this information immediately and can work with the client on a realistic basis."

Banks also don't want loan applicants to wander off because another lender has made a better offer, McCarthy said.

For Zaio, a Calgary-based public company, whose name is an acronym for Zone Appraisal and Imaging Operations, starting up is a huge undertaking that will cost about \$75 million, Ross said.

It plans to photograph every property, including commercial buildings, in 250 U.S. metropolitan areas.

Photography is largely complete in half a dozen cities and has been started in a handful of others. After the photographers finish, Zaio matches the pictures in its database with appropriate public records. The company plans to complete all 250 metro areas by 2010.

Zaio divides each city into zones of about 10,000 properties, and is selling appraisers the exclusive right to such zones for \$9,200.

Appraisers who have purchased zones will walk them, using a proprietary system to assign a score to each property, and update the data regularly so that an instant appraisal can be produced when needed, Ross said.

Databases already are operational in Mesa, Ariz., and Spokane, Wash.

"The numbers it generates are great," said Todd Powell, president of the Spokane Firefighters Credit Union, which has saved money using the system on some loans. The credit union pays \$125 for a Zaio appraisal, instead of the \$300 to \$350 for a traditional one.

"But not every area is covered by it -- it doesn't have data for homes in rural areas," said Powell. "You have to maintain a relationship with an appraiser. You're not going to fully rely on this system."

He says Zaio-appraised loans can be completed in three to five days, compared with a couple of weeks with the traditional process.

Setting up the system in Chicago will take at least six months, Ross said. Teams of 20 to 30 photographers will start shooting Chicago's 184 zones in May. He said Zaio has sold about 70 Chicago zones so far.

Ross sees other applications for Zaio's database. Firms that trade in the secondary mortgage market, for example, could use it to grade loan portfolios. The insurance industry might use it for re-estimations to make sure properties are properly covered. In a natural disaster federal agencies could use it as a tool to reconstruct neighborhoods, he said.

Yet the appraisal community isn't sure what to make of Zaio, said McCarthy, who says he plans to hear out company officials.

"Zaio can be viewed as competition or as a potential avenue of new business," he said. "It's a bit of a gamble. Can appraisers make money on it? I don't know."

Zaio is showing up at a time when many in the industry are worried about appraisal's future because of automation, potential government scrutiny related to mortgage fraud and the subprime mortgage market meltdown, and the general slowing of the real estate market.

"The appraisal community still uses production concepts established in the early 1900s, appraising one property at a time," said Victoria Cassens Zillioux, a San Diego-based consultant who has done some work for Zaio.

She estimates that AVMs have shrunk certified appraisers' share of the market from nearly 100 percent a decade ago to 25 percent today.

"Some people are threatened by Zaio," said Simmons, who has purchased 10 zones in Northern California. "One appraiser said, 'Won't this put me out of work?' I said, 'Well, it could, but some of the automated tools and computer modeling is already putting some people out of work.'

"This may be a tool that brings some business that's lost back to us and may even open up potential market segments that we don't have today."

Naperville appraiser Chip Wagner said he won't buy in. "No, thanks," he said. "Zaio has a place in this industry, and it's going to take a chunk of business from the AVM market."

He said his firm instead will concentrate on developing a niche of intensive service to relocation companies and others with specific needs.

Ross said demand for knowledgeable people will continue, and "they'll have to compete a little differently." But the field will shrink, he says.

"We saw the industry grow from 70,000 appraisers in 1996 to over 100,000 today. There are 17,000 in the U.S. who were licensed in the last three years who have never seen a downturn in the market. I think we'll get down to 60,000 appraisers."

Zaio's skeptics include Discovery Bay, Calif., appraiser Karen Mann.

"I don't see how this is going to fly," said Mann, who has attended a Zaio presentation and views setting up and maintaining the data as cost-prohibitive.

She said she also questions the company's claim that its "preappraisals" would sidestep a controversial problem in the appraisal business: pressure by lenders to "hit a number" on a home's value in order to make a loan application go through.

"There are those who are going to believe that the benefit of Zaio is that you can't influence the appraiser on the value," she said. "Well, statistics can always be manipulated."

Others in the industry have predicted that Zaio's street photography could be superseded by developments in satellite photography.

And McCarthy said he expects that Zaio soon will have competitors. "If Zaio is successful, they may be the first kid on the block, but eventually they won't be the only kid on the block. It wouldn't be long," he said.

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