

Here's the Lowdown on Thwarting Low Appraisals

NAHB News

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Although stabilizing home values and modest price increases across much of the land are fueling a housing upturn, the recovery still remains tenuous, in part because a flawed appraisal process continues to thwart accurate valuations on new homes.

NAHB has made it a priority to enact major reforms so that appraisals reflect accurate home values and do not needlessly kill home sales. Too often, due to faulty appraisal practices, home sales have come in below a contract sales price and brand-new homes with state-of-the-art appliances and interior upgrades have been compared to distressed properties. In some cases, this has led to a new home getting appraised at less than the construction cost.

So how can builders fight back against low appraisals and win back sales?

NAHB builder-members who have successfully navigated through the appraisal process offer the following suggestions:

Share data with the appraiser. Builders should provide all relevant data to appraisers, including plans and specifications of the property, information on how their product differs from their competitors, a list of energy-efficiency features in the home, details on materials that were chosen, and the buyers' reaction to products selected. Builders cannot talk about the specific value of the home, but they can give the appraiser factual information that is verifiable.

Insist on a qualified appraiser. Use lending institutions that hire competent appraisers. If an appraisal assignment goes to an appraiser who you know is unfamiliar with your geographic area, insist that the lender switch to an appraiser who knows the area.

- Request an appraiser who is familiar with new construction and/or energy-efficient construction.
- Keep a detailed record of data provided to the appraiser (email, notes in calendar, etc.).
- Engage with the lender and provide the facts. Nothing prevents a lender from ordering a second appraisal if the first appraisal appears flawed.

Be present during the appraisal. A builder can answer any questions the appraiser has during appraisal of the property and also point out added features, amenities and products that make the house stand out from others in the market.

Stage the property. Just like a buyer looking at an open house, an appraiser is likely to look more favorably on a home that exhibits curb appeal and is clean, clutter-free and move-in ready.

Employ the Tidewater Initiative. This little-known rule at the Department of Veterans Affairs states that if the appraiser determines that the value will come in lower than the sale price, he is required to halt the appraisal before it is completed and make the lender aware of the value coming in below the sales price. This allows any party to the transaction, including the builder, to provide additional information in support of the sales price. Since this is done at the VA, a builder can ask any lender to consider this policy without violating current regulations.

Valuing Green Homes for What They are Worth

Too many appraisals of homes with green features are being conducted by appraisers who simply aren't trained to recognize the features and adjust valuations accordingly.

One builder and remodeler, Matt Belcher of Hibbs Homes in Wildwood, MO., came up with a simple solution when he ran into this problem. Belcher (who certifies his projects to the ICC 700 National Green Building Standard and other sustainability programs) developed relationships with several local lenders who all agreed to require that any appraiser assigned to his projects had undergone training, such as that offered by the Appraisal Institute, to become qualified to appraise high-performance homes.

Belcher also developed a sales contract clause for situations where the buyers prefer to select different lenders. The language, which has been reviewed and enhanced by the Appraisal Institute, states:

“This Home is being built/renovated/updated to nationally recognized standards above prevailing code. It is designed and constructed with unique features and materials and with high-efficient equipment and in accordance with high-efficiency standards. The Lender shall choose an Appraiser educated and knowledgeable in this type of valuation of these specialized Homes, preferably an appraiser who holds a professional appraisal designation that requires advanced education on such issues as the valuation of sustainable buildings (e.g., MAI or SRA designations from the Appraisal Institute). The appraiser shall provide verification of green valuation education of 14 hours or more from a qualified educational provider and knowledge to be permitted to conduct the appraisal for this project.”

The requirement seems to be working. After one recent episode in which Belcher thought the project was undervalued, he used the clause to request another appraisal from the lender, this time to be done by a person whose qualifications he could verify. The second appraisal came back reflecting a value that was much more appropriate.

Builders and remodelers who face green appraisal challenges are encouraged to refer to the NAHB Green Toolbox: Overcoming Appraisal Challenges for additional ideas.

NAHB Leads the Way

NAHB has taken a leadership role on appraisal issues by bringing industry stakeholders and regulators to the table at five summit meetings that it has conducted at the National Housing Center in Washington, D.C.

NAHB has also adopted policy on appraisals that calls for:

- Strengthening education, training and experience requirements for appraisers of new construction.
- Improving the quantity and quality of data for new construction.
- Developing new appraisal standards and best practices for conducting appraisals in distressed markets.
- Developing a process for expedited appeals of inaccurate or faulty appraisals.
- Strengthening oversight of appraisal activities.

Moreover, NAHB has developed an appraisal white paper, “A Comprehensive Blueprint for Residential Appraisal Reform,” that the association uses in its advocacy efforts with Congress, regulators, appraisers, lenders and other relevant stakeholders. The white paper calls for reforms and recommendations that will:

- Streamline and coordinate the current regulatory framework and devote adequate resources to ensuring effective oversight and enforcement.
- Create a real estate data “superhighway” with a national real property registry and supporting networks.
- Reaffirm and streamline key appraisal principles contained in the Uniform Standards of Professional Appraisal Practice.
- Establish uniform credentialing standards specific to each area of appraisal practice.
- Enact a consistent set of rules and guidelines for appraisals.
- Consider all three valuation approaches – cost, income and sales comparison.
- Develop a dispute resolution process for expedited appeals of inaccurate or faulty appraisals.
- Establish a standard and a process to get the best appraisers for each assignment.

Resources for Home Builders

NAHB has also developed excellent resources to help its members successfully navigate the appraisal process. These include:

- A two-page summary for members on how to build stronger and more productive relationships with appraisers.
- A “Builders Guide to Appraisals” webinar, which is available [here](#). The webinar features a panel of home builder and appraisal practitioners who discuss appraisal rules and provide advice to help builders improve the accuracy of their home valuations.
- An Appraisal Primer that provides a detailed overview to help NAHB members better understand the appraiser’s role in the financing of new homes.

To learn more, go to nahb.org/appraisals or contact Steve Linville at NAHB at: 1-800-368-5242 x8597.