

# Appraisals aren't keeping up with rising home prices

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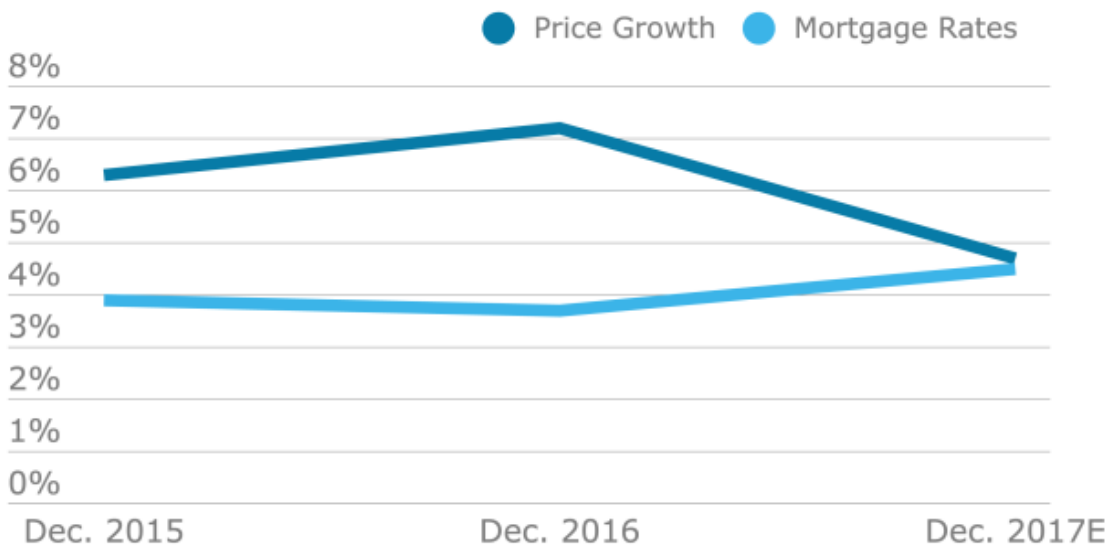
Soaring home prices have created market volatility that's making it difficult for appraisers to accurately pinpoint home values and putting mortgage approvals and home sales in jeopardy.

[The home sales failure rate was 6.3% in 2016](#), up from 3.4% the year before, according to Trulia, and appraised values not coming in high enough to substantiate purchase prices were among the leading causes of failures.

In 2017, home prices are expected to continue their increase nationwide, primarily due to a shortage of inventory. But the valuation data used to for appraisal report comparables tends to lag changes in the marketplace, prompting concerns that even more transactions could fall through because of appraisal issues.

## Slowing price growth

Rising interest rates should temper home value increases, making it easier for appraisers to get up-to-date comps



Source: CoreLogic, Mortgage Bankers Association

It is a challenge for appraisers to issue an opinion of value when prices are on the rise. In highly volatile markets, even a comparable sale from a month ago can be too old.

"While it looks like it is a good, recent, comparable, that price was probably negotiated 30 to 60 days earlier so in reality, [the appraiser] is trailing the market a bit," said Mark Melikian, the chief valuation officer of Summit Valuations, an appraisal management company in Des Plaines, Ill.

Even as mortgage rates rise in 2017, CoreLogic is forecasting a 4.7% increase in home prices for the year. This follows a 7.2% year-over-year increase from December 2016 over 2015 and a 6.3% from December 2015 over 2014.

As markets continue appreciating, it's likely that there will continue to be more appraised values that don't support the contract prices negotiated between buyers and sellers — at least until price increases begin to flatten out.

"It's really easy to appraise in a stable market on the other hand," Melikian said.

Lenders' underwriting guideline overlays are responsible for the perception among buyers that appraisals are coming in very conservative, he continued. "Underwriting guidelines are still tight now in the wake of the housing crisis. Those underwriting guidelines tend to be even tighter as the amount of the borrower's down payment shrinks," a common challenge for first-time homebuyers.

When appraised values do not meet the sales price, appraisers get blamed for killing deals.

"The appraisers appear to be acting as conservative today as they were lenient during the housing boom, and I don't blame them. The whole industry got a black eye for being too lax back during the boom and so they are [probably overcompensating](#) just as mortgage lenders have done," said Rick Sharga, chief marketing officer of Ten-X, a real estate listing and data provider.

If the appraisal comes in below the contract price, the only way to save the deal is for the buyers to come in with more cash, which many lower-end purchasers cannot afford, or to renegotiate the price and the seller could be reluctant and as a result the transaction is terminated.

"So much of the population lives on that monthly payment mentality; they can only afford to pay so much a month. The price hasn't come down to fit what the [buyer] can really pay per month," said Michael Chadwick, a financial planner in Unionville, Conn.

The [inventory shortage](#) has a lot to do with prices — which normally drop when interest rates rise — remaining elevated. Buyers are making offers on multiple properties and picking and choosing among the ones that are accepted. Investors who purchase properties through Ten-X to flip and resell to owner-occupants are seeing an unusually large number of deals falling apart because of this, said Sharga.

Some buyers are making offers on multiple properties with the thought that they are going to outbid, and some are ending up with being able to choose from two or more accepted offers. Then there are those buyers who have gotten outbid so often "they say 'the heck with it, the next house that I see, we're going to write an offer above this price,'" Melikian said.

"It's really easy to appraise in a stable market," said Mark Melikian of Summit Valuations.



"Just because there is a negotiated contract price, that price could be above market value," and he suspects there will be a short-term bump in this type of activity because people will think they need to buy a house now before rates rise even further.

Ultimately, the whole way Americans purchase and finance homes needs to be revamped, said Sharga.

"If we were designing the whole real estate process from scratch, we'd look at it and realize how many things don't make sense. It is the only market I know of where a buyer makes an offer on something before they know what it is worth. And where the seller accepts an offer on something before they know the buyer can really afford it," he said.



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