

Approaches to Home Valuation

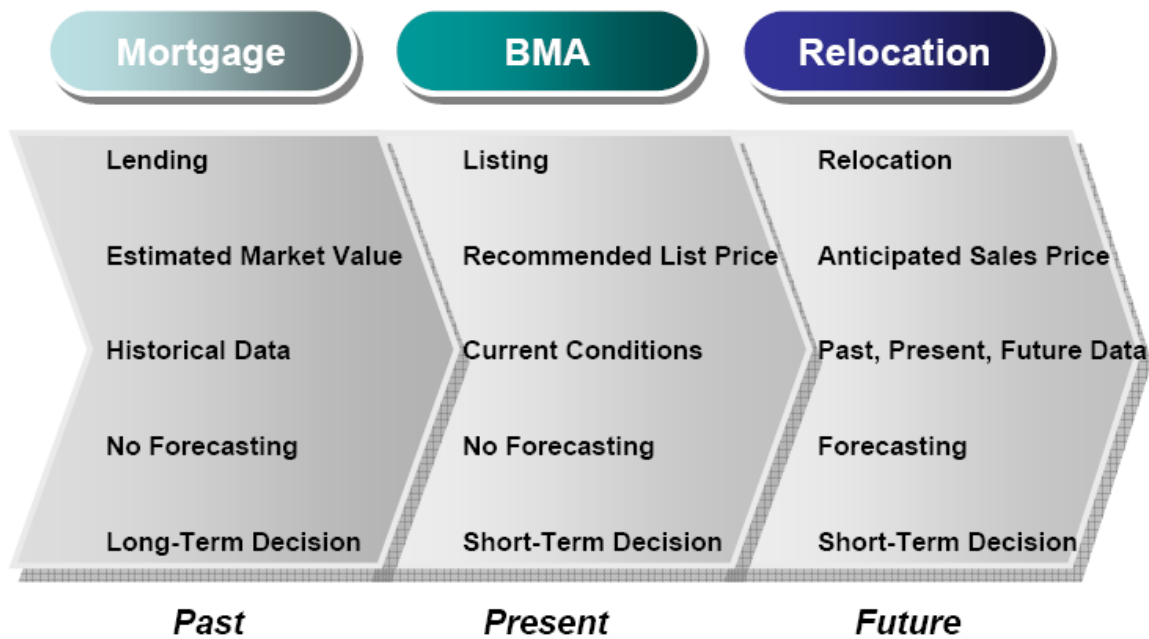
This paper describes the methodology differentiators between mortgage and relocation appraisals, as well as the broker market analysis (BMA).



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As housing values in the U.S. continue to decline, accurate home valuation is becoming difficult to properly determine. Many organizations offering a guaranteed buyout provision are realizing a disparity between the broker market analysis (BMA), appraised value, and eventual sales price, resulting in frustrations on the part of both the Company and employee as assessments of value “catch up” to the reality of the market.

Home valuation is not an exact science. Different methodologies, including the use of mortgage appraisals, broker market analyses, and relocation appraisals may all be available during the course of one corporate transfer. It is important to understand what the primary goal behind each method as to avoid confusion.



The Mortgage Appraisal

The Uniform Residential Appraisal Report (URAR) is the tool utilized by the mortgage lending industry for assessing market value for the purposes of loan underwriting. 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.¹ In addition, the mortgage appraisal takes into account long-term decision making, resulting in lower risk to the client / lender as often times the repayment term of the loan can be up to 30 years.

The Broker Market Analysis

The Broker Market Analysis (BMA) is a real estate agent tool, provided as part of a listing presentation, which establishes a competitive marketing strategy, including a recommended list price and most likely sales price based upon an analysis of the current marketplace for the subject property. The BMA focuses on present market conditions and usually does not include, nor require, any type of forecasting. While the BMA does review elements similar to an appraisal, such as competing listings and comparable sales, no appraisal licensure is required of the broker to complete such an assessment.

¹ **How the Relocation Appraisal Differs from Other Appraisals**, Alvin "Chip" Wagner III, SCRIP, IFA, Mobility Magazine, 2001

The Worldwide ERC Relocation Appraisal

The Worldwide ERC appraisal is the relocation industry tool used in determining the value a Company will offer a transferee for their home in the event they are unable to procure a bona fide offer from an independent buyer. Governed by the Uniform Standards of Professional Appraisal Practice (USPAP), relocation appraisers are charged with developing and supporting an *anticipated sales price* for the subject property based on its present use as a residential dwelling on the date of inspection. The appraisal emphasizes the sales comparison approach in estimating value which is based on the market's perception, not the intrinsic or replacement cost of the residence or improvements, as well as viewing the property through the potential buyers' eyes.

As standard protocol for determining a guaranteed buyout offer for the home, two (2) independent Worldwide ERC appraisals are completed and averaged together to establish the anticipated sales price of the home in a reasonable marketing window not to exceed 120 days.² In addition, a "check and balance" is built into the process, stipulating the variance between the appraisals be no greater than 5%. Should the appraisals be out of the 5% variance, a third appraisal is conducted. Calculation methods in the event of a third appraisal vary, as some clients average the two closest, the two higher, or all three values to determine a final guaranteed offer. Averaging of all three appraisals is the most conservative approach, as the IRS may view discarding one of the appraisals (i.e. the two closest or two higher) as directing the offer, resulting in potentially unnecessary tax consequences to both the Company and transferring employee.

Employing comparable closed sales, pending transactions, competing listings, and absorption rate, the appraiser sets a benchmark value for the property. Marketing adjustments are made positively or negatively based upon how the home weighs against the comparables; however these adjustments are not necessarily dollar for dollar. Special consideration is paid to the location, condition, and overall appeal of the property. For example, homes with very personalized décor may be subject to a negative market adjustment since it may reduce the pool of interested buyers. Additional forecasting adjustments may be necessary in markets where the average days on market (DOM) exceeds 120 days as price becomes the a driving factor in selling the home quickly. Further, historical trending data may support adjustments to comparables based upon certain times of year (i.e. extended marketing times in winter) or for markets showing a consistent downward trend month over month.

² Employee Relocation Council Summary Appraisal Report, 2003, Definitions and Guidelines, Page 1

About the Author

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Karen has nearly 12 years of professional experience including positions in account management, recruiting and event planning. Her relocation background includes 7 years with leading relocation providers in operations and consulting. While in operations, she was awarded top honors for transferee satisfaction. Applying her insight from operations to cultivate approaches to policy design that both appeal to the client's bottom line while providing relevant benefits to increase employee satisfaction, Karen has successfully designed and implemented new relocation programs for nearly 30 clients and conducted numerous research projects and benchmark studies. Karen holds a B.A. in English with an emphasis in Technical Writing from Northern Illinois University in DeKalb, IL. In addition, she has continuing education credits in Illinois Real Estate Practices and Real Estate Appraisals.

About Paragon Relocation Resources

Originally founded as a relocation consulting company in 1987 specializing in domestic and international relocation and global assignment program development consulting, Paragon's mission was to develop cost-effective mobility programs that offered more services to the transferring employee, at less cost to the organization. Today, Paragon maintains an extensive consulting practice focused on global mobility issues in their entirety.