

Special Edition

February 2006

## *Fidelity Valuation Services*

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# FVS Newsletter and Bulletin



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*Would you like to share your business information / updates with your colleagues? To post information in future Newsletter’s please contact **Jody Scannell** at [jody.scannell@fnf..com](mailto:jody.scannell@fnf..com) or*

*508-422-1749*



[www.rac.net](http://www.rac.net)

**Relocation Appraisers and Consultants (RAC)**, in partnership with Worldwide ERC, had a great conference in San Diego last year at its second annual educational offering, RACTrac 2005 was a complete success. Highlights of the conference are presented [HERE](#) and in a [RAC Photo Album!!!](#)

**RAC** is hard at work planning our next "RACTrac" conference which will be held in Orlando, Florida at the [Walt Disney Dolphin Hotel](#) on **May 17th and 18th, 2006**. MARK YOUR CALENDERS NOW!! for RAC Trac III .

RACTrac is open to all appraisers involved in relocation appraising and the **10 hours** of course content is focused on the unique valuation challenges and business aspects of relocation appraising.

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## ***RAC TRAINING PROGRAM***

### **CALCULATING INVENTORY LEVELS**

By A.L. "Chip" Wagner, IFA, SCRPA  
Headrick-Wagner Appraisal Group, Ltd.

An **absorption rate** is also referred to as an **Inventory Level**. It is reported in "months supply."

This technique is valuable to relocation appraising in both macroeconomic and microeconomic situations. Macro markets include regions, MSA's, counties, parishes or individual communities. Micro markets would include neighborhoods, subdivisions, school districts, property types, and price ranges.

The **months supply** is an important number, which calculates the inventory of homes available in relation to the typical number of homes to sell per month. A balanced supply would be 3 to 6 months worth of inventory. Greater than 6 months would be an oversupply, and less than 3 months would be an undersupply. Some appraisers may include pendings in their analysis and then consider an undersupply to be under 3 months, a balanced market to be 3 to 4 months, and an oversupply to be greater than 4 months.

The Inventory Level is calculated by adding up the number of sales to have occurred in past 12 months, and divide by 12. This creates a monthly average over a 12 month period to remove the seasonal fluctuations that may take place in the marketplace. Once the monthly average of sales is figured, the current total number of listings should be divided into the average monthly sales to create the months supply.

The basic algebraic formula:

**Months Supply = A / (S/12)**

**A=Total # of Active Listings**

**S=Total # of Sales in past 12 months**

# What's Going on in Your World??

By Charlie Flagg, SRA

“Whatta my bid...I got two hun’ert...

gimme two fitty’ ...do I hear two – fitty?”

In the real estate arena, the auction is an increasingly popular means of property dispersal whether an actual auction such as one conducted by the county sheriff for foreclosure purposes or a metaphorical auction such as when multiple offers vie for that “hot” property. As a Relocation Appraiser it is important for you to inform your client which type of “auction” is more likely to occur. What’s going on in your world?

News headlines foretell with macabre anticipation a “bursting bubble” in residential property in this country. Whether or not one actually occurs is not as critical as whether there are measurable signs on your horizon that the market is shifting. This is not an empirical analysis, and while not foolproof, these ideas may be considered when giving your client a reading of the market for relocation properties. Are prices softening, market time increasing, the number of listings vastly exceeding the market’s ability to absorb? A glimpse at several sub-markets within the regional market of Northeast Ohio may offer insight on how to uncover the signs of change. Using the MLS system appropriate to the sub-market, one can bracket a time-frame such as “say” January 2001 through December 2005 in an attempt to uncover repeat sales in order to uncover an increase/decrease in price, if any over the time period.

*News headlines foretell with macabre anticipation a “bursting bubble” in residential property in this country.*

For instance within a certain 36 square mile township between Akron and Canton Ohio known as “Jackson Township” with about 36,000 residents having between 450 and 500 transactions per year it was observed that the upper end of the relocation market which fell between \$400,000 and \$500,000 was dominated by new construction. Case #741 displayed “cost new” 1999 at \$406,900 followed by a first resale for \$427,000 July 2002 after completion of basement finish with bath. A later sale occurred May 2005 for \$443,000 that suggests a modest gain of just over 1% per year from 2002 to 2005. Further, did the first resale include the costs of landscape and interior appointments, which would have further minimized the cash gain, if any? Case #010 demonstrated a 1% increase over 2 year period from \$485,000 to \$492,000. Delving deeper we found that as a new home in 2000 that “cost” \$436,900, the first resale in 2003 for \$485,000 included a finished lower level with bath that was added. Finally in this same sub-market Case #773 was bought “new” for \$364,500 in 2003, re-sold in 2004 at \$380,000 for a solid gain of 4% in just 10 months but a subsequent re-sale in August 2005 for \$410,000 included a finished lower level. Here the change appears significant at 7.8% until one recognizes the “cost” of the lower level finish suggesting the real-gain is very modest at best. In this sub-market it may be concluded that any significant increase in sale price over time is often related to hard-cost property improvements rather than inflationary pressures.

The next sub-market, Hudson, lies between Akron and Cleveland containing about 23,000 residents in 7500 dwelling units where sales over the past 5 years run between 350 and 400 units with an averages annual sale price of about \$335,000. Case #483 lies in a tract where prices range from about \$260,000 to \$400,000 noted for significant relocation activity. Acquired in September 2001 for \$256,000 the home re-sold in August 2005 for \$282,000 with the 11.8% gain annualized to about 2.8% per year for 4 years. The lower level was finished between acquisition and sale. Case # 640 in this same neighborhood was bought in August 2003 for \$283,000 only to resell in June 2005 for about \$318,000 for an average annual increase of more than 6%, the highest of all the paired-sales in the four sub-markets. However, when seller-contributions of about \$7,500 were deducted the actual gain was closer to 2.5% per year. Moving to a higher-cost neighborhood where the price range is \$400,000 to \$575,000, Case #931 was a 2002 acquisition at \$400,000 which re-sold for \$445,000 3 years later for an 11.24% gain that is annualized to read about 3.75% per year. Moving to a pocket where homes that sell above \$500,000 Case #084 was acquired in 2001 for \$450,000 followed by a re-sale in 2005 four and a half years later for \$513,000 for an annual average increase of about 3% per year. Here are two other anomalies: Case # 419 was sold in July 2003 for \$525,000 which was \$5,000 short of its 2001 purchase price of \$530,000 while Case # 415 sold for \$510,000 in October 2005 which was \$10,000 under the January 2001 purchase price of \$520,000. These properties are offered as evidence that sometimes properties go “upside-down” by selling below acquisition cost.

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Finally, the paired sales analysis moved to a dynamic west-side suburb of Cleveland where new construction impacts the relocation market. In one particular subdivision it was found that 23 properties sold at least twice over the 6-year period from 2000 through

2005. Extreme price fluctuations ranged from an 8.2% gain in price in one case over the period to a 17.6% *loss* on sale in another over the same period. Concluding, in the subdivision where the average sale price is about \$385,000 the average annual gain on sale was about 2.37%.

According to these samples from NE Ohio neither forced-sale sell-offs nor bidding wars seem to be common. Gains on sale are typically *modest* at about 2% per year with larger gains often the result of hard-cost improvements to the properties over the term of ownership. Be aware that this study did not include all sales in all markets but rather a review of paired-sales in order to uncover selling patterns between 2000 and 2006 to assist the Relocation Appraiser in obtaining more accurate readings in various sub-markets. Generalized market statistics published by various real estate data services may paint a more optimistic picture of selling prices that run counter to local or national news services designed perhaps, to incite a shocking response to headlines like “*A Sagging Market*” by Peter Krouse, Cleveland Plain Dealer on Monday June 13,2005. It is incumbent upon the Relocation Appraiser to study paired sales occurring within the sub-market containing the subject property in order to more accurately forecast the market’s ability to absorb a new offering within the prescribed reasonable market time. How will the auctions be conducted in your neighborhood?



Charlie Flagg, SRA

A Relocation Appraiser for 29 years from Hudson, Ohio formerly with the University of Akron and current Instructor for the Appraisal Institute.

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## What’s Going on in Your World??

Check out the  
The RAC Report.....

[http://www.rac.net/rac\\_report/2005q4/index.html](http://www.rac.net/rac_report/2005q4/index.html)

***Please visit the following helpful  
Websites***

<http://www.erc.org/>

<http://www.rac.net/>

<http://www.appraisalinstitute.com/>

<http://www.naifa.com/>

<http://www.msnbc.msn.com/id/8874568/>

<http://www.mortgagenewsdaily.com/index.asp>

[http://www.bizjournals.com/industries/  
real\\_estate/](http://www.bizjournals.com/industries/real_estate/)

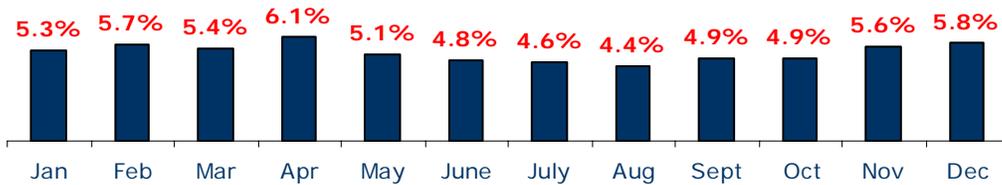
[http://money.cnn.com/real\\_estate/](http://money.cnn.com/real_estate/)

# New! FVS Variance Performance Results

2006



2005



## Congratulations - 2005 "Top Performing" Appraisers

### (Tier One)

- #1 Rick Deardorff , SRA, IFAS—Cincinnati, Ohio
- #2 Kelly Anderson, SRA—Centennial, Colorado
- #3 Candice Wilson, CRP—Marietta, Georgia

### (Tier Two)

- #1 Jody Kriewaldt—Appleton, Wisconsin
- #2 Michael Westmann, SRA—St. Charles, Missouri
- #3 Doug Watson—Apex, North Carolina

### (Tier Three)

- #1 James Morris—Summit, New Jersey
- #2 Thomas Eifler—Fair Oaks, California
- #3 Mark Finney—North Palm Beach, Florida

*Your performance  
is outstanding.  
Thank You*



**Tier One & Tier Two** - Top performance based on:

**Variance** less than 5% (highest percentage of target variance of all assigned volume)

**Turn time** less than 5 business days (highest percentage of target turn time of all assigned volume).

**Tier Three** - Top performance based on:

**Turn time** less than 5 business days (highest percentage of target turn time of all assigned volume).

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**FVS MISSION:**

*"To be the leading provider of exceptional appraisal management services and a resource of information to the relocation and lending industries through our nationwide network and team of professionals."*

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## Online Relocation Appraisal Training Program



Don't miss the opportunity for exceptional training by completing the Worldwide ERC®'s IDECC-certified and AQB-approved online Relocation Appraisal Training Program. After completing the training, you will receive the "Worldwide ERC Appraisal Trained" notation in your online Worldwide ERC Directory listing.

Worldwide ERC® strives to provide the most convenient and cutting edge opportunities in continuing education and is pleased to announce that 19 states have approved this valuable training for credit towards their license to date, and include Alabama, Colorado, Connecticut, Iowa, Kansas, Maine, Maryland, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, North Carolina, Rhode Island, South Dakota, Tennessee, Virginia, Washington, Wisconsin. We continue to receive approvals from across the country, so check the website often to see if your state has been approved!

The Relocation Appraisal Training Program is an online course, accessible 24/7, and covers concepts and procedures in relocation appraising, provides instructions on completing the Worldwide ERC® Summary Appraisal report and offers report writing techniques and a forecasting study.

For more information, please visit, [http://www.erc.org/PERC\\_USA/ratp\\_guide.shtml](http://www.erc.org/PERC_USA/ratp_guide.shtml), or call +1 202 857 0144.

# Communicating Appraisal Results: Tips for Improvement

by: James R. Gargano, Jr., IFAS, CRP

*The appraisal process is one of the most important and often one of the most misunderstood aspects of relocation. Gargano outlines in great detail how appraisers can be more effective in communicating their results to the primary stakeholders they serve.*

The ability to communicate effectively is the cornerstone to any successful relationship. This statement can be said of any relationship, whether it be between spouses, parent and child, teacher and student, coach and player, or between an employer and employee.

Simply stated, most relationships are negatively affected when productive communication channels are not fostered. It is no exception in the relocation industry as it relates to the appraisal process. The following items represent keys toward accomplishing this goal.

1. ***The accomplished and savvy relocation appraiser recognizes that he or she is communicating an appraisal to multiple parties. Various segments of the appraisal analysis should cater to each potential reading segment.***

As stated within the definitions and guidelines of the Worldwide ERC® 2003 Appraisal Form, the intended users of the appraisal report are the appraiser's client and the employer. A vast majority of corporations also allow their individual transferees to review the appraisal. The intelligent and accomplished relocation appraiser recognizes that his or her appraisal report potentially is going to be reviewed by a variety of users. The writing style and content of the report needs to recognize that each user may have a different level of understanding of appraisal methodologies. Certain elements of the report should be geared directly to needs of the relocation management company and/or the corporate client, while other content should be aimed at the transferee.

*Each transferee needs to feel that the appraisal being performed on his or her residence specifically addresses the location and physical attributes of the home.*

For example, the relocation management company and corporate client may desire more analytical elements, such as absorption studies/supply-demand analysis, detailed commentary of the particular home's décor and appeal, and a keen understanding of the rationale for the application of a forecasting adjustment.

On the other hand, the transferee is interested potentially in more specific information related to the actual home. Including a detailed list of the improvements made by the transferee during the term of ownership affirms for the transferee that the items were, in fact, considered in the overall valuation (regardless of the actual contributory value of the improvements applied by the appraiser toward the anticipated sales price).

Additionally, when the transferee offers market data for consideration in the appraisal analysis, a thorough discussion should be dedicated toward explaining when such a property is not used as a primary value indicator. Offering a detailed explanation as to the omission of transferee-offered market data will give the employee a better understanding of the rationale behind the search criteria used when locating the most valid comparable data.

Furthermore, dedicating a section within the report detailing the positive and negative marketing aspects of the subject property and/or the marketplace may offer valuable insight to the transferee as to the overall rationale of the anticipated sales price.

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**2. *The professional relocation appraiser avoids the “form-filler syndrome.”*** A vast majority of appraisers fall prey to this condition, leading to a predictable and “robotic” style of writing. Appraisers, in general, need to be more creative, analytical, and descriptive in their appraisal presentation. The accomplished appraiser attempts to reinvent his or her style periodically. Generating the same type of analyses year after year is not a trait of a dedicated relocation appraiser. Simply checking the boxes of the form and adding little detail and substance to the areas of the appraisal form available for commentary does not add value to the appraisal process. In general, clients tend to appreciate a more detailed and descriptive analysis, adding substance to the adage that the appraiser truly represents the “eyes and ears” of the client.

Along those same lines, the accomplished relocation appraiser avoids the use of “canned commentary” throughout the body of his or her appraisal. Each individual transferee needs to feel that the appraisal being performed on his or her residence specifically addresses the location and physical attributes of the home. Commentary concerning market conditions never should be based purely on seasonal expectations. There have been many instances when particular markets actually are robust between November and January—the heart of the holiday season. Similarly, the beginning of the spring market does not translate automatically into an active environment. Markets also can be quite fluid in many regions of the United States. A market that was considered active 30 days ago often can become saturated quickly. Regardless of the particular time of year, the analysis of the “pulse” of a particular market must be supported by quantitative data.

Special attention should be given to the commentary used to describe the listing and comparable sales data. Many clients have expressed a desire to have appraisal reports incorporate greater detail in this area of the report. Simply repeating what already has been clearly outlined in the comparable grid sections does not add any value to the analysis. Telling the reader something more specific about each property can make the appraisal report far more valuable to the corporate client, third-party reviewer, and the transferee.

Another area of the report that can provide an excellent source of information is the section for photographs. Generous use of photographs with detailed descriptions can tell the reader about the positive and negative aspects of a particular property. For instance, detailing the décor elements of the individual interior rooms can further substantiate an appraiser’s suggestion to address the items of personalization. Additionally, taking photographs of various positive or negative site characteristics can be a valuable reference to the reader.

**3. *The professional relocation appraiser understands and cites the Worldwide ERC® Relocation Appraisal Guide.*** Published by Worldwide ERC® and created with the input and skills of many of the most talented appraisers throughout the country, this guide should be sitting on every good appraiser’s desk as a constant source of reference. Using the guide as a specific source can provide needed clarity and substantiation for an appraiser’s methodologies.

In addition, the dedicated appraiser—regardless of experience level—also should occasionally take the time to read and review the first page of the Worldwide ERC® Appraisal Form. The definitions and guidelines section of the form serves as a comprehensive refresher course for the primary elements associated with the relocation appraisal process. Furthermore, it is a constant reminder of how different the mechanics and concepts of a relocation appraisal are in comparison to mortgage-related appraisal forms.

Corporations and third-party companies should consider including the first page of the Worldwide ERC® Appraisal Form as part of the materials presented in a relocation information packet to transferring employees. By reading the definitions and guidelines section of the Worldwide ERC® Appraisal Form prior to the initiation of the appraisal process, a transferee can gain valuable understanding of the parameters that the anticipated sales price will be based on. How many times have we heard during the appeal process a transferee claim that the condition, modernization, and/or upgrading of the home is anything but “average.” By reviewing the guidelines of the appraisal report, one would realize that an “average” classification simply refers to a rating that describes an attribute as generally typical for the particular marketplace. For instance, a newly constructed, upper-bracket residence still can be classified correctly as “average” based on Worldwide ERC® guidelines if it is located within an area/marketplace of similar residences.

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**4. Skilled relocation appraisers are proactive in their appraisal presentation.** Addressing ambiguous items of a particular appraisal directly in the body of the report can avoid a lengthy appeal process. There are many instances in a relocation appraiser's career when an appraisal assignment can be classified as anything but "cookie-cutter." Further explanation is required to clearly state the position of the appraisal opinion.

Primary issues that can cause a reviewer grief are the treatment of additional rooms, (What actually is a "site improvement" and what constitutes "finished space?"), gross living area, and attic space. As noted in the previous section, the appraiser should be familiar with the Worldwide ERC® Relocation Appraisal Guide. This source is clear in the proper treatment of these areas. Conforming to the guidelines outlined in this source creates an "appraiser protocol" that should be followed to avoid serious inconsistencies between appraisals and, in turn, alleviate the confusion and anxiety level of the appraisal reviewer.

For a wide variety of reasons, there also may be instances when a property is an unique appraisal subject. Clearly state the unique conditions of the subject property and discuss in a direct and open manner what rationale was used when locating comparable data for the property.

On the surface, the reader may not understand why a certain set of properties was used as comparables in an appraisal. For instance, there actually may be a very good reason why an appraiser uses a home that is physically different or is in another location as a comparable in a particular assignment. The appraiser needs to clarify the primary search criteria used and why a particular property was relied on in the analysis.

An adherence to, or better awareness of, the previous steps, can help the appraiser to communicate more effectively within an appraisal report. Many appraisers are more "technically-oriented," and possess the necessary skills to produce a credible estimate of the anticipated sales price. However, further emphasis needs to be placed on the writing skills necessary to convey with creativity and detail the elements supporting the estimate of value. As the appraisal process represents one the most important components of the entire relocation process, the continued improvement in this area needs to be a requirement of the entire appraiser community.

**James R. Gargano, Jr., IFAS, CRP**, is a partner and principal for Bomba Gargano Valuation, Inc., Naperville, IL, and a member of the *MOBILITY* Editorial Advisory Committee. He also is a member of the board of directors of Relocation Appraisers and Consultants (RAC), and was the recipient of the group's first annual report writing contest winner. He can be reached at +1 603 719 9100 ext. 13 or e-mail [jgargano@bgvaluation.com](mailto:jgargano@bgvaluation.com).

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## Reminders

### Client Requirements!

**EVERY ORDER FORM IS UNIQUE AND SHOULD BE REVIEWED UPON RECEIPT!!**

**It's mandatory to physically measure the exterior of the subject property.**

**Do not use MLS or tax records!**

### Comparable Sales

FVS requires visual confirmation and actual comp photos.

MLS photos are not acceptable.

**NOTE:** For help with questions regarding ERC processes or an appraisal question, please call the FVS Appraisal Help Line at (508) 422-1751 or email [helpfvservices@fnf.com](mailto:helpfvservices@fnf.com). Please DO NOT CALL with inspection dates, fee requests, declines, etc. Please call the Fidelity representative listed on the top right of your order form. For Centand Mobility appraisal questions call 203-205-4668.