Opportunities in Improving Market Conditions

As the economy continues its slow and steady improvement, the feasibility of new construction increases. Many cities are already seeing some land development and new condominium development.

What does this mean for the Appraisal community?

Appraisal Opportunities

- Individual Lot Valuations for single family residential lots. Could be for unfinished lots or finished building sites.

- Plan appraisals to estimate the retail value of vertical construction for single family residences, condo units and townhouses.

- Appraisals of finished detached ingle family, condo, townhouse products.

- Review assignments

Land Development Loans and Large Vertical Construction Loans

The land development loan will be a commercial appraisal assignment. The commercial appraiser may or may not subcontract with a residential appraiser to assist with the retail lot values and retail market analysis.

These types of large developments typically require 50% sell-out within one year of development. For that reason, half of the lots will be pre-sold.

Large Commercial Builder Lines of Credit

- The builder line will typically be tied to a "borrowing base" that is determined by the value of the lot plus proposed home developments less unsold inventory more than x days old.

Borrowing Base Cap -

Advance rate 75% X Planned vertical construction:	$20,000,000
▪ Less finished inventory > 90 days	$5,000,000
Eligible draw	$15,000,000
Outstanding Balance:	$13,000,000
Available Funds:	$2,000,000

Large Builder Lines – often unsecured

Plan Appraisals:

Plan A: $860,000 assuming Lot X, Subdivision Y

Lot upgrade: $x/SF larger lot; $x golf course, $x ocean view

Carpet upgrade: $10,000

Landscape package: $25,000

Etc.

Plan B: $740,000

Upgrades $xx, $xx, etc.

Plan C: $635,000

Plan D: $400,000

Interim Construction Loan

An interim construction loan is a short term loan of one or less to fund the construction of a new home. A residential appraiser is hired to estimate the value of the existing land (unfinished lot, buildable site, ..) and the value of the proposed home under a hypothetical assumption.

These loans usually originate on the commercial side. Depending on the bank, the commercial side and consumer side may or may not be connected.

Numerous Appraisal Assignments will come out of one subdivision development

Retail lot values

1 or a few banks if participation

Plan Appraisals – a few banks

Completed Product Appraisal –

Numerous banks

Loan Servicing

The funding for real estate transactions may come from Wallstreet investors that hire a financial institution to conduct the underwriting and servicing of the loan. Each investor will have their own unique requirements. Even though Bank A places the appraisal order, the specific requirements for the loan may be driven by Investor P. In this case, Bank A is the appraisal client.

Bank A collects the payments + interest and deducts a servicing fee from the proceeds. The remainder is sent to Investor P.

Loan Sales and Purchases

Sometimes one institution may sell a package of notes to another. These sales often involve large pools of loans of 1,000 or more loans. When the loan transfers, all legal documents in the file become the property of the new owner.

Investor P packages 5,000 loans for sale serviced by Bank A

Bank B purchases the loan. A representative sample of the credit files is reviewed. Terms for setting pricing and rejecting loans from the pool are set and closing is set for a specific date.

Bank B reviews a sample of the credit files and corresponding appraisals to ensure compliance with federal law.

Bank Sales and Purchases

- Bank B hires several review appraisers to assist with reviewing 500 of the loan appraisals in the pool.
- Bank B and the review appraisers find issues with 50 (10%) of the pool of reports. Bank B is unable to speak with the original appraiser to clear up questions about the appraisal and is therefore unable to confirm the original appraisal was compliant when the loan was booked. The appraisers and appraisals are referred to the appropriate state board. The loans are rejected from the pool.
- The loan pool sale is closed.

Lost Opportunity

In many cases, Bank B will want an appraisal update or market analysis to gauge value trends and verify current LTV's even though there is no regulatory requirement to update the value for current low risk loans. If Bank B is unable to speak with the original appraiser about the original appraisal it now owns, Bank B cannot effectively discuss what the new scope of the assignment should be with the original appraiser. As a result, Bank B conducts an internal analysis.

Commercial Vertical Construction Opportunities– Condominiums and Attached Housing

- Individual retail values of each condominium for the commercial discounted cash flow analysis.

- Investors may take down large groups of shell units and finish out for re-sale. The estimated retail value of the finished product is an appraisal opportunity.

- First generation sales activity between developers/investors to consumers represents an appraisal opportunity.

- Second generation sales activity between consumers represents an appraisal opportunity.

Appraisal Opportunities and Risks

- Your appraisals may be getting more exposure than you thought in the market place. There are numerous checks and balances as loans move through the process. This represents opportunities and risks. Don't burn any bridges.

- There are hundreds if not thousands of different ways loans may be structured. The risks for each lender vary depending on concentration limits/loan volume in a project and whether the lender is keeping the loan or selling the loan.

Appraisal Opportunities and Risks

- Now if the best time to brush up on new construction and become an expert on up and coming specialty features. Learn how to read site plans and building plans.

- Know and understand the difference between first generation sales between the builder and a buyer and second generation sales between a home owner and a buyer in a new development.