

“Appraising” the Situation

by Lawrence Yun, *NAR Chief Economist*

As I write this, we are about to celebrate the 4th of July – Independence Day. What started as a revolt against unfair taxes became a revolution against an imperial government intruding into the lives and business activities of colonial citizens. Tea tax, stamp tax, burdensome regulations and rules that impede the free flow of goods and trade. Thank goodness we are blessed to live in the land of the free.

Of course, for many households and businesses today independence is tempered by the current economic environment. We have seen improvement in our economy but we need to see more – especially in the real estate sector. Let first take a look at the latest developments.

The latest residential housing market figures do indeed give me some hope. Existing-home sales rose 2.4 percent in May. May's increase follows a rise in re-sales in April as well. That's the first back-to-back monthly increase in existing-home sales since September of 2005. Pending sales also rose. And while May's pending home sales index of 90.7 represented a mere 0.1 percent from the previous month's (upwardly revised) reading of 90.6, it was 6.7 percent higher than the index in May 2008. Indeed, May's pending home sales index was the fourth consecutive monthly gain since October of 2004. Housing affordability continues at historically high levels as well. NAR's Housing Affordability Index in May was 171.6. While that is off from April's revised reading of 178.8, the index last May was 129.8. And remember that April's index was the highest reading ever recorded since NAR began tracking housing affordability in 1970.

So what's holding back our “independence” from the current recession and a true housing recovery? First and foremost – jobs. June's employment figures showed that employers cut 467,000 payroll jobs during the month – a much larger number than most analysts expected. And the good news that May's job cuts were smaller than originally estimated (322,000 rather than 345,000) was offset by revised April employment figures which showed 15,000 more layoffs than originally thought. The national unemployment rate rose to 9.5 percent – that's the highest level in 26 years. It's likely that the unemployment rate will surely breach the double-digit threshold before it starts to trend back down in 2010.

But another factor which seems to be impeding a housing recovery is new appraisal rules and they could be impacting the time it takes from contract to closing. There is a growing lag time between the pending home sales and closed sales. Traditionally, sales close one to two months after a contract is signed.

In the past month, we've heard from a number of REALTORS® that the appraisal process is taking longer.

The appraisal issue is a bit complicated. For instance, distressed homes often are selling for 20 percent less than normal homes in the same area. (In May distressed properties accounted for almost a third of all existing-home sales.) But some appraisals don't distinguish between traditional homes and distressed properties.

In many cases appraisers from outside the area are being used. They are hired by large, national lenders, perhaps with little knowledge about a local real estate market. The intentions of the new appraisal rules were to improve accuracy by removing undue pressure for inflation valuations. But the pendulum may have swung too far in the other direction, leading to unintended negative consequences, including consumers paying higher fees, and appraisers receiving lower compensation.

Another consequence is a “lower quality” of appraisals – many appraisers themselves (and REALTORS® as well) have indicated to me that they’ve seen lower quality of appraisals because those appraisals do not take into consideration unique housing features. The result of all of these “unintended consequences” from the new appraisal rules: the housing market recovery being unnecessarily delayed.

(More details about the new appraisal rules, current legislation under consideration and NAR’s efforts on this issue are available at www.realtor.org. The Association also has a “blog” on which you can share your concern and latest experiences with the new appraisal rules.)

All real estate is local and appraisals should be done by an expert with local expertise. Speedy clarification of the appraisal rules could smooth a housing market recovery and support the overall economy. NAR is currently conducting a study to assess the degree to which new appraisal rules are impacting home sales. And NAR is working with policymakers to ensure that appraisals are conducted so that home buyers and sellers can conduct their transactions with REALTORS® in a cost-effective and time-efficient manner.

So let’s declare a bit more of our independence – and freedom from restrictive rules that are holding back a vigorous housing recovery. Only when that happens will we be free from the reins – and the reign – of our recession.