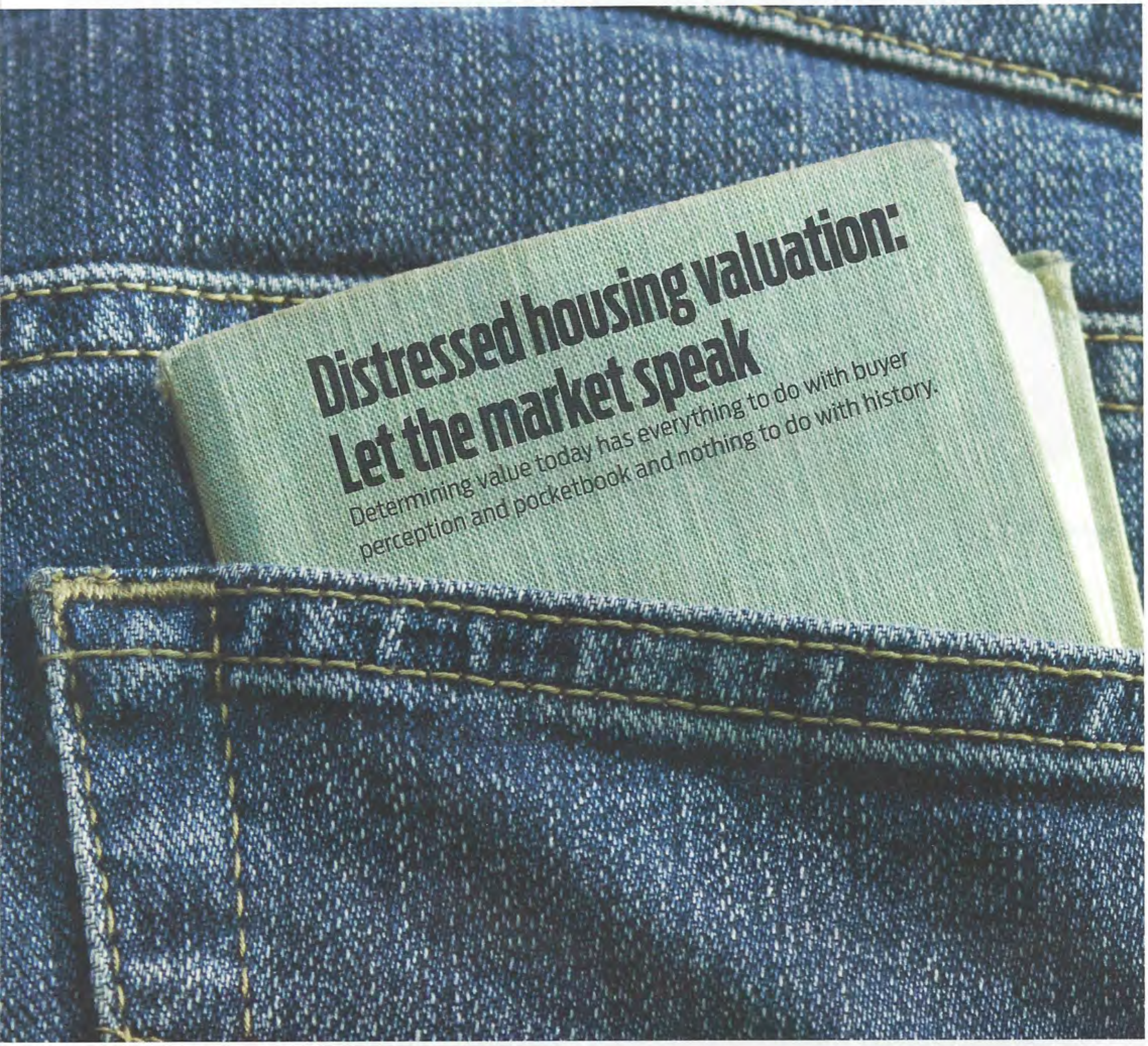
Real Estate

Ronald Jasgur is president of Woodward Asset Capital in Southfield, Michigan.

BY RONALD JASGUR



It's no secret that there's a huge disconnect in housing industry valuations today.

The default servicing industry has more information than ever available, yet even when so much information piles up (unemployment, foreclosure and other data layered over appraisals and broker price opinions), industry leaders are still left with an estimate or opinion of value that doesn't reflect the most important resource of all: the buyers in the marketplace right this minute who are interested in purchasing a particular property.

As we've created software solutions OfferSubmission and VerifiedShortSale and worked through their development and evolution, my partners and I have become increasingly frustrated that so many servicers and banks still aren't listening to the market — the only way, we're convinced, to facilitate a true recovery.

Existing models of valuation are inherently flawed because they are subject to human selection and error. In our systems we see that 23% of all listings consistently sell above the bank's list price, which the client formulates using appraisals, BPOs and automated modeling.

But the only value that matters when negotiating an REO or short sale is what the actual market is willing to pay today. The past is history. It's no indication of what's happening now or what could happen tomorrow. An appraisal is an estimate based on history. A BPO is an expectation based on history.

Here is some additional data to underscore our perspective:

A foreclosed house in Chicago that sold in June was listed at $53,900 with a BPO of $50,000 and a $49,000 appraised value. The bank fielded 75 offers. The property sold for $154,157, 286% over list.

A foreclosed house in Austin, Ind., listed at $12,500, with a BPO $12,500 and a $12,000 appraisal. It sold for $24,000.

A foreclosed house in San Diego listed at $204,750 (with a BPO at $195,000 and an appraisal at $180,000), and sold for $301,000, with 76 offers.

In the traditional way of selling REO, the bank would never see 75 offers, of course. This data speaks to the fact that the traditional way of marketing distressed assets leaves a lot of money on the table. That's a loss for everyone — servicer, investor, neighbors and local taxing authorities. The industry cannot afford to continue to rely on outdated practices when available technology can help us determine true market value.

In a recent blog on our website, Lou Spampinato, CEO of RealValue, an asset valuation firm in Irvine, Calif., concurred, saying: "There are great, big gaping holes in the process of doing valuations. We know this industry is misguided in the tools and processes we have to determine housing value and yet we keep using them, relying on them, despite our frustration."

Valuations are a problem at every part of the process — from REO to short sales to originations. Our company's CEO, Rodney Carey, says, "Value isn't value to everyone." When a buyer is borrowing, it's a very different situation than when he brings cash to the table. A difference of mere dollars per month in payment doesn't equate to skin in the game. And when it's a bank determining its own risk, well, it's a different conversation entirely.

True market value is a very difficult number to determine. Yet today's valuation methods give no consideration to what the market is willing to pay, other than a review of the purchase agreement that prompted the BPO or appraisal.

True market value is a very difficult number to determine. Yet today's valuation methods give no consideration to what the market is willing to pay, other than a review of the purchase agreement that prompted the BPO or appraisal.

And that means that valuations of all kinds — the appraisals used in the originations business as much as values established for first-time homebuyers, empty-nesters looking to sell and everyone in between- can hurt homeowners, and our communities. Everyone has the potential to become a lame duck homeowner due to flawed valuations. Especially those selling distressed assets from an office someplace across the country.

Think about it. When you have access to offer activity and feedback, you get a different perspective on what a house is truly worth than if all you have to go on is yesterday's news. You don't want to be that empty-nest couple who paid off their 30-year mortgage and eagerly awaited the day their house sold well enough to yield a comfortable retirement nest egg. What they thought was their best investment could suddenly be slapped low-value, and leave them with empty pockets, because the system is flawed.

Bad valuations affect anybody buying or selling a house. Too many transactions fail because of a bad appraisal.

Ultimately, as it stands today, our way of figuring out housing value is inherently, fatally flawed. In my field of focus, distressed assets are costing taxpayers big-time. When we can't come to terms on a short sale because an appraisal does not consider what the market is willing to pay — that should factor into the discussion.

Appraising is an art, not a science. It remains someone's opinion, and we all know there is no such thing as unbiased. Value can change in a day as circumstances change.

A year ago, a local appraiser and Realtor in suburban Detroit, Louise Braun, contacted me to voice her frustration that "the listing prices of foreclosures in no way resemble the appraised values.

"What a damned nightmare this market is for homeowners, Realtors, appraisers, flippers and local governments, school districts and county governments," she said. She took issue with new uniform appraisal rules, insisting that basing value on the past — recently sold properties, something not-quite-near comparable, transactions that happened in a different economic time and circumstance — will never create true market value.

Clearly, the way we have always done valuation no longer works — especially in the wake of an extreme market high and its subsequent unparalleled crash. It's time to do business differently, smarter, breaking out of old bad habits and instituting new processes, procedures and thoughtful approaches to how we determine dollar-value for housing.

We're not quite there yet as to be able to suggest a new way of doing business. But we're getting there. And it won't be a moment too soon. ■

KEY CONCEPTS

The way we have always done valuation no longer works — especially in the wake of an extreme market high and its subsequent unparalleled crash.

So many servicers and banks still aren't listening to the market — the only way, we're convinced, to facilitate a true recovery.

The only value that matters when negotiating an REO or short sale is what the actual market is willing to pay today.