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## Appraisal discrepancies hold up some sales

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### Real estate slump, rule changes make it tough to establish property value

By Jenifer B. McKim, Globe Staff | June 10, 2009

Property appraisals, once a routine part of a real estate deal, are complicating home sales as the slumping market makes it difficult for appraisers to pinpoint values.

Surprising buyers and sellers, appraisers increasingly are setting home values lower than an agreed upon sales price or the amount required for a homeowner to refinance. The discrepancies are, in part, being caused by a paucity of recent home sales - making it challenging to properly compare prices - and sales of foreclosed properties, which can disproportionately depress neighborhood values.

As a result, sales and mortgage refinances are increasingly in danger of falling through, according to real estate agents and others in the industry.

"If you can't get a reasonable appraisal, it can tank the transaction," said Barry Nystedt, owner of Buyer Brokerage Realty in Wellesley. "It's very difficult when there are no direct comparable properties to set the value. It involves a lot of interpretation."

Barbara Shea McDonald, a real estate agent in Westwood, said the uncertainty is adding drama to deals in a market already tenuous due to nervous buyers and tight financing. "We hold our breath hoping that the appraisal will come out OK," she said.

In Chicopee, real estate agent Ray Authier said he recently had a deal almost fall through after the appraisal came in \$4,000 below the agreed upon price of \$165,000. Eventually, the buyer and seller agreed to split the difference, he said.

"If it is worth \$161,000, it's worth \$165,000," Authier said "We did put it together, but it caused both stress and heartache to both parties. . . . We are sweating out all the appraisals right now."

Jon Treon, a broker for Re/Max Executive Realty in Natick, said two of his pending sales were recently challenged because the appraisals came in about \$10,000 lower than the agreed upon price, a last-minute problem he hasn't seen in more than a decade.

In one case, an appraiser valued a Natick home at \$11,000 less than the \$341,000 price agreed upon by the seller and buyer because an identical property in the duplex sold for \$330,000 the previous year.

Treon said he understood the appraiser's rationale, but the decision put at risk a sale that had a willing buyer and seller.

"Buyers are the ones that determine value, that is how real estate works," Treon said. "When you are talking a few percentage points it is ridiculous."

Appraisers say they are now being required to provide lenders with more comparable sales and detail the local market history.

When there are no comparable sales, appraisers examine recent sales of bank-owned properties, something that can drag down the values in a neighborhood, said Stephen Sousa, executive president of the Massachusetts Board of Real Estate Appraisers. In towns with slow sales but fewer foreclosures, he said, appraisers need to take into account listings that have been sitting on the market.

"There is a lot more attention being paid to appraisals, and that means everyone is looking at these things more conservatively than before," Sousa said.

Adding to the pressure, new regulations governing mortgage giants [Fannie Mae](#) and [Freddie Mac](#) that took effect in May give appraisers freedom to set values without influence from mortgage brokers and loan originators.

The regulations, meant to create a firewall between appraisers and those who order loans, prohibit brokers and other loan originators from ordering appraisals. Instead, loan originators are required to go through a third party, such as an appraisal management company, to get the work done.

The new rules are intended to prevent the inflated appraisals that contributed to the national housing crisis. But some real estate industry officials worry the rules will push housing prices even lower.

For instance, Sousa said, appraisers hired from a pool of workers now may travel further distances to do their work, often working in unfamiliar neighborhoods. Also, he said, a prohibition on lenders and mortgage brokers discussing a property's value prevents simple negotiations to reconcile price differences of a few thousand dollars.

"A lot of deals that are squeaky close to working are now falling apart because you can't have that conversation anymore," Sousa said.

Ronn Huth, president of Buyer's Choice Realty in Wenham, said buyers prefer conservative appraisals, he also worries that appraisers hired through a third party might not be familiar with the regions they are covering.

In addition, appraisers are wary about what their figures will look like a year from now if property values continue to decline, said Peter Milewski, an official at MassHousing, the state's affordable housing bank. Appraisers struggle to balance the current value of a house with what it could be next year, he said. "People are very concerned about having their work reviewed in the harsh light of time," he said.

Richard Goulet, owner of The Appraisers Group in Belmont, agreed that appraisers are struggling to pinpoint home values in this volatile market.

"Appraisal is not an exact science," Goulet said. "Often times value can be a moving target."

*Jenifer McKim can be reached at [jmckim@globe.com](mailto:jmckim@globe.com). ■*