

Keeping the Speed Up The Economics of Alternative Valuations

I started in the appraisal business in 1982. Both of my parents were SRAs and they had a small practice in Hamilton, Ohio. When I came home from college, I joined the business and we began to expand our appraisal practice to the Greater Cincinnati area. My parents retired and I continued to build the company, finding the appraisal business to be rewarding and profitable. As we expanded our practice I hired and trained many appraisers, some who were with me for 25 years before closing my business in 2009. I still have a limited personal practice specializing in complex residential valuation and relocation appraisals.

I share my personal story so you will know that I have seen “the best of times and the worst of times” in our industry. I know what it is like to run an appraisal business, to make payroll and try to earn a profit in this ever-changing profession. Appraisers have benefited greatly from new technology but nonetheless reports take longer to complete than ever before. Stagnant fees have resulted in appraisers earning less, or working more, than we did 10 years ago. The typical residential mortgage report is longer and more detailed than ever before and fees are barely higher than 10 years ago, if higher at all. It has become more and more difficult for appraisers to maintain a high hourly billing rate.

I have always contended that appraisers should set their fees for services based on an hourly rate, recognizing it may take time for clients to agree. Other professions such as attorneys and accountants consider hourly rates when they quote for their services. Although they do not always bill on an hourly rate, these professionals calculate fees for their services based on the amount of time they spend on each assignment. Would it not be great if appraisers did the same to maximize their profitability and productivity?

So what is the typical hourly rate for a real estate appraiser? In preparation for this blog, I researched hourly rates for appraisers from several websites. The results were startling to me. The table below summarizes 3 websites that surveyed appraisers on their annual salaries and calculated the hourly rate.

| | Hourly Rate for Appraisers | | |
|---|----------------------------|---------|---------|
| | Low | Median | High |
| payscale.com | \$12.00 | \$19.00 | \$40.00 |
| bls.gov | \$12.74 | \$24.53 | \$45.21 |
| salary.com | \$15.00 | \$24.00 | \$33.00 |

I suspect that these hourly rates reflect real estate appraisers as employees and not independent contractors, as most are. So in an effort to verify a gross hourly rate, I developed the table below based on fees for a typical URAR with a 1004MC addendum. The “hours to complete” column includes travel time, inspection and handling any revision requests.

| | Fee for URAR with 1004MC | | | | |
|-------------------|--------------------------|--------------------|--------------------|--------------------|----------|
| Hours to complete | \$300.00 | \$350.00 | \$400.00 | \$450.00 | \$500.00 |
| 4 | \$75 | \$88 | \$100 | \$113 | \$125 |
| 5 | <u>\$60</u> | <u>\$70</u> | <u>\$80</u> | <u>\$90</u> | \$100 |
| 6 | <u>\$50</u> | <u>\$58</u> | <u>\$67</u> | <u>\$75</u> | \$83 |
| 7 | <u>\$43</u> | <u>\$50</u> | <u>\$57</u> | <u>\$64</u> | \$71 |
| 8 | \$38 | \$44 | \$50 | \$56 | \$63 |
| 9 | \$33 | \$39 | \$44 | \$50 | \$56 |
| 10 | \$30 | \$35 | \$40 | \$45 | \$50 |

This table demonstrates a continuum from \$30 an hour to \$125 an hour. I believe most mortgage assignments fall between \$300-\$450 and average between 5-7 hours to complete. There are obviously outliers and anomalies but the most probable hourly rates are in bold above. This narrows the range from approximately \$43 an hour to \$90 an hour for a typical assignment. Of course these fees are gross calculations and do not factor in expenses the appraiser incurs. At least these calculations are more encouraging than the surveys from the websites.

High fee assignments are not always profitable assignments. There have been many times in my career when I have accepted assignments with a high fee that did not turn out so well. I went on to complete the assignments but ended up determining that I could have done better on an hourly rate working at McDonald's. Like my father always said, "Experience is what you get when you do not get what you want." So I chalked those assignments up to experience and learned that a large fee does not mean a profitable assignment.

Alternative valuations are at low end of the fee spectrum; they generally have very small fees on an individual basis. However, these products make sense whenever you approach your business from the hourly rate model. With our GEAR products, we estimate appraisers will achieve a billing rate of approximately \$80 per hour. The Scope of Work for a GEAR product is significantly less than standard URAR work. The GEAR RE and GEAR Desktop assignments do not have an inspection by the appraiser. In this assignment type, the appraiser provides a desktop appraisal based on an inspection provided by a real estate agent or professional property inspector. Appraisers utilize Extraordinary Assumptions regarding the content provided by the outside inspector. All of the work is done by the appraiser at his or her desk. The appraiser is in complete control of the valuation process but the system has direct connectivity to public records allowing the appraiser to import the comparables they select. Market metrics are also brought into the report for the appraiser to analyze. The typical time to complete one of these alternative valuations is somewhere between 20-30 minutes. Below is a table of hourly rates calculated based on the amount of time to complete a desktop GEAR RE assignment.

| | GEAR RE Fee | | |
|---------------------|-------------|--------------|-------|
| Minutes to Complete | \$30 | \$40 | \$50 |
| 20 | \$90 | <u>\$120</u> | \$150 |
| 30 | \$60 | <u>\$80</u> | \$100 |
| 40 | \$45 | <u>\$60</u> | \$75 |
| 50 | \$36 | \$48 | \$60 |

Our goal is for the appraiser to earn an hourly rate that is at least as high as standard URAR work, if not better; yet with lower costs. We typically would like to place these assignments at around \$40 with the expectation that the appraiser can complete the limited Scope of Work in approximately 20-30 minutes. This would yield an hourly rate of around \$80 per hour. As already demonstrated above, this is similar to the typical rates achieved by appraisers for conventional work.

I have used the GEAR RE product as an example in this blog article. We also have a product called GEAR AP that has the appraiser driving by the property (like a 2055). We pay an additional fee for these assignments that is commiserate with an inspection fee. Again, the hourly rate is intended to be around \$80 per hour or more.

Some appraisers will say that they cannot complete appraisal in 30 minutes. That is definitely true if you are envisioning work that you are accustomed to doing now. However, the intended users of this product understand the appraiser's Scope of Work and are content with its limitations. Remember that credibility is always measured in terms of the intended user and intended use of the assignment. These assignments are intended to be limited in scope and the intended users understand the risks involved with this type of assignment.

I am sure that I will hear from some that Axis is making a killing on this product on the backs of appraisers. It is true that we are making a margin on this product, that is why we are in business. But, the costs of the appraiser and the inspector combined leave a small margin for this product. Remember these products are intended to unseat BPOs which typically have a price point in the marketplace of somewhere between \$75-\$110. There really is not that much left over, but we are trying to get appraisers back in the driver's seat in this market segment.

I encourage you to be open-minded to these assignments considering the amount of time they take. The first few assignments may take you a little longer as you learn the system. Once you get the hang of it they can be completed in approximately a half an hour or less. If you approach your business mindful of your hourly rate you will find these assignments to be very profitable. Right now, you cannot make a living on alternative assignments alone. There simply are not enough of them to fill your day. They can be an extra source of income for you in between your conventional assignments. GEAR RE assignments can be completed anywhere you have Internet connectivity. Why not earn a few extra dollars when you have an extra half an hour or so in your schedule? And why not diversify your business into markets that were not previously available?

GEAR products enable you to earn income without leaving your desk. You do not have to waste non-billable hours and spend money on gas driving to a property. These products are economically viable and in most cases more profitable per hour than standard everyday GSE appraisal work. Forward thinking appraisers will understand that these USPAP compliant assignments yield a more profitable hourly rate than other types of work. In the end it is about your hourly rate not the fee amount of each assignment.