INDUSTRY INSIGHT / ERNIE DURBIN

THE UBER EFFECT

Technology is changing everything. Economically speaking, technology has created the "sharing economy." This new economic principle has evolved and grown exponentially over the past several years, primarily the result of reliable high-speed internet and handheld mobile devices.

The flagship of this new economy is Uber, an online transportation network company based in San Francisco with operations in more than 500 cities worldwide. Uber provides a software app for mobile devices that connects consumers with drivers who use their own cars to transport passengers from point A to point B for a fare.

Uber has been incredibly disruptive to the transportation industry, particularly to taxicab companies and drivers. Many researchers are studying the "Uber effect" on the labor market and its economic impact in major metropolitan areas. There is no doubt that taxi companies have been particularly hard-hit. In New York City, where taxis still have the largest share of the business, their portion sank from 84 percent in April 2015 to 65 percent by April 2016.

FEELING THE EFFECTS

New York City requires taxi drivers to display a medallion. These medallions are limited, and their market value was well over $1 million per taxi in 2014. In January of this year, medallions were selling for as little as $250,000, a direct result of Uber and Lyft, a similar but much smaller company. Many independent taxi owners have large debt service on these medallions and are now deeply underwater.

With their future in doubt, taxi company owners and taxi drivers have responded to Uber

Time, money, and positive outcomes drive the 'sharing economy' success of popular ride-hailing service Uber, and these same factors are influencing the valuation industry's venture into shared valuation processes and alternative appraisals.

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with organized protest and political lobbying. Across the world, and particularly in Europe, taxi drivers have drawn attention to their cause by organizing slowdowns and roadblocks in major cities and at airports. Less publicly, many have instituted lobbying campaigns at local and state levels.

Traditional taxi owners are asking their legislators to level the playing field by forcing ride-hailing firms to comply with taxi regulations or ban ride-hailing services entirely. But despite these efforts by traditional providers, Uber and the "sharing economy" continue to expand at an unrelenting pace. Why?

A BETTER EXPERIENCE

Uber continues to grow for one reason: Consumers prefer ride-hailing alternatives to traditional taxi services. The three primary reasons are convenience, price, and service. Rather than stand outside on a cold street corner, an Uber user requests a ride via a smartphone. He or she knows exactly when the driver will arrive and can walk to the curb and meet the car.

Once on the ride, the passenger knows the route the driver will take and the cost estimate, which is usually spot on. After arriving at the destination, the passenger simply bids farewell and gets out of the car. No cash is exchanged, no paper receipts are necessary, and both the driver and the passenger rate the experience.

Generally, the cost is significantly below the same ride in a traditional taxi. Many times, the driver provides water and offers to charge your cell phone for longer rides. Most users will tell you that Uber provides a much better consumer experience. For taxi drivers, technology is changing everything.

CONVENIENCE AND COLLABORATION

Technology is also revolutionizing the valuation space and creating a better experience. Valuation practice and methodology is changing as a result of technologies such as reliable high-speed Internet, big data stores, online workflow/collaboration, and mobile devices. Today, real estate appraisers and agents cannot work without internet. In the past, appraisers and agents would collect information from the county courthouse in their own private listing files. Nowadays, this information is available with the click of a mouse.

Beyond local data, large companies are aggregating real estate information and making the same local information available nationwide. Valuation reports used to be produced on typewriters and then on personal computers. Now, many reports are created online through web portals. Appraisers and real estate agents are no longer tied to particular platforms. They can provide their valuation services and reports anywhere they have an internet connection.

Working online also provides opportunities to collaborate and divide the valuation process among professionals. Real estate agents can provide inspection services, and certified appraisers can supply the valuation portion of the assignment. Data for the valuation can be provided online as well as collected at the subject property using handheld mobile devices. New technology is changing the roles of real estate agents and appraisers while creating a new breed of valuation products at the same time. These new valuation products are slowly replacing traditional appraisal work.

ALTERNATIVE APPRAISALS

Traditionally, appraisal work has been completed entirely by the appraiser, utilizing standard Fannie Mae and Freddie Mac government-sponsored entity forms like the Uniform Residential Appraisal Report. Appraisers have been tasked with all the roles in the valuation process. These include physically inspecting the property, driving by the comparable sales, and then developing the analysis from the office. Recently, though, there has been a shift away from the traditional appraisal to alternative appraisals.

These newer appraisal products are not alternatives at all; they are simply appraisals with a different scope of work. The standard Fannie/Freddie scope of work is not the best solution for every valuation problem. Users of appraisal products are realizing this and developing new appraisal reports with a completely different scope of work.

Unlike traditional appraisal work, most of these new assignments do not involve a full site inspection by the appraiser; they are based on an analysis by the appraiser without viewing the property. In these assignments, the appraiser provides a desktop appraisal relying on an inspection provided by a real estate agent or professional property inspector.

Inspection data is collected on handheld devices and then passed on to the appraiser for a desktop analysis. The appraiser utilizes "extraordinary assumptions" when using the content provided by the third-party inspector. These are similar to the extraordinary assumptions that would be applied to a drive-by assignment performed by the appraiser (for instance, assumptions about the interior of the property).

Using web portals and mobile technology, the appraiser and the surrogate inspector work in concert to collaborate in the valuation process. Photos and inspection information taken in the field on a mobile device are available to the appraiser nearly instantly after they are collected. Real estate agents, who are familiar with things that influence value, provide appraisers with information regarding the subject's condition, external influences, and other important site level details.

Appraisers can concentrate on what they do best, reconciling this information into a credible opinion of value. Technology facilitates the transfer of information between these two professionals. The combined effort results in a more efficient process, lower costs, and quicker response times. The end result is a credible valuation report with a different scope of work than a traditional appraisal.

A POSSIBLE BPO REPLACEMENT

Generally speaking, the marketplace has always preferred real estate appraisals to broker price opinions (BPOs). Intended users of real estate valuations understand that certified appraisers are specialists in valuation. That being said, traditional appraisals are usually not the first choice in the default and servicing sector. In this segment of the industry, valuations are ordered on a large scale and need to be turned as quickly and as inexpensively as possible. BPOs have been sufficient for the task.

The new alternative appraisal reports are gaining market share in the default and servicing space. The "shared" valuation process has reduced the cost of these valuation products and allows them to be completed with much shorter-term times.

The cost differential between BPOs and these alternative appraisal reports is significantly less than with traditional appraisals. As a result, appraisers are finally getting a foothold in the space, and we will see more and more of these alternative appraisal reports replacing BPOs in the default and servicing realms.

The shared economy and recent technological advances are changing the roles of real estate appraisers and real estate agents in the valuation process. These changes will surely have an economic impact on both appraisers and agents, but it may affect appraisers in particular. Will appraisers face the same challenges as Uber has brought to the taxi industry? The answer is "yes and no," and the final effects will depend on how appraisers embrace this new process and technology.

HIGHER-CAPACITY UTILIZATION

The most recent studies of Uber and the taxi industry indicate that Uber has created more jobs than it has destroyed. In a paper entitled *Drivers of Disruption? Estimating the Uber Effect*, the academic authors conclude that Uber drivers exhibit higher hourly rates than their taxi-driving counterparts. The additional efficiencies of the Uber platform allowed for higher-capacity utilization.

Those embracing technology make more money while traditional taxi drivers lost money. However, as the hourly earnings for traditional taxi drivers declined, it was offset by the increased wages of Uber drivers. The result was an overall expansion in total employment within cities that embraced Uber. These economic principles of the sharing economy demonstrated in the paper will most likely hold true for the valuation space as well.

Appraisers who embrace novel processes and technology changes in the new scope of work defining these alternative appraisal reports will also experience higher-capacity utilization. Put simply, appraisers can complete more of the alternative appraisal reports per day than they can traditional reports. Measured on an hourly rate, the smaller fees of the alternative reports yield a higher hourly rate than traditional appraisal work.

Most of these new appraisal reports will be utilized in place of BPOs, gaining new market share for appraisers embracing innovation. Real estate agents will still be involved in the process and also earn more fees per hour based on the reduced paperwork of completing the valuation portion.

At some point in the future, these alternative appraisal reports will begin to replace a segment of traditional appraisals on the origination side. We will see the scope of work of the appraisal report matched to the collateral risk level of the originated loan. But overall, appraisers who leverage the technology and processes of a shared economy in valuation will be the most successful in the future.

SHARED ECONOMY EFFICIENCIES

Technology is changing everything, including residential valuation. Hopefully appraisers will embrace the additional efficiencies of a shared economy. There will always be a need for appraisers in the valuation process. While roles may change and processes improve, the overall result will be more opportunity for appraisers to do business in areas that were previously dominated by BPOs.

As these changes make their way to the origination side, they will certainly disrupt the current state of affairs. Appraisers who have based their livelihood on mortgage origination work alone will be most affected. Hopefully, they will not respond in the same manner as the taxi industry: with protest and an attempt to legislate the status quo. It is better to adapt and leverage the new technology and processes than to find yourself left on the curb of the new shared economy.