So what is wrong with the real estate appraisal process in today's market?

There is absolutely no standard in use among appraisers. Since appraisers are like snowflakes (no two alike), they establish values according to their own opinion. It's all subjective. They, of course, will totally disagree and claim that they do have standards. They claim that the guidelines set forth by the Marshall & Swift Cost Guide (their Bible of sorts) and the use of comparable sales make their job as objective as possible. I say, "Bull Manure!"

Let's take a look at three appraisal reports on three separate Seaside properties that I happen to be in possession of. I won't mention the appraiser's names as much as I would like to. But I will give you lots of clues* and maybe you can figure out who these culprits are. But first let's discuss a couple of their valuation methods.

There are three approaches to the appraisal process: the income approach, the cost replacement approach, and the one with the most weight, the sales comparison approach. The income analysis is hardly ever used for single family dwellings, so I won't address this concept but the other two are used extensively.

Appraisers can place a value on a home by using factors to determine what it would cost to replace the structure in its present condition. First of all, they will give a value for the lot then add the cost per square foot to build the same floor area, including the garage and then deduct for depreciation. Sounds scientific, doesn't it? I say, "Doggie Doo-doo!"

Appraiser No. 1 states that a lot in Seaside is worth $106,000 (Opinion of Site Value). No. 2 states that a lot in Seaside is worth $140,000 and No. 3 states the worth at $185,000. Please note the word, "Opinion" and also note that the definition is about as subjective as it can get. All three appraisers obtained their opinion of value by the abstraction process. Please note the root word is "abstract". Look that one up.

By the way, here are a couple of facts about the location of the three different sites: Appraiser No. 1's lot is 6,000 sf in the desirable upper Mescal neighborhood with front yard views of bay and rear yard views of mountains and hills. No. 2 and No. 3 are both about 3,700 sf and located in the lower less desirable neighborhoods. Go figure. I sarcastically say, "I'm so glad these appraisers are using the scientific abstraction process for site valuation. They really know their stuff."**

The next step in the cost replacement approach after site valuation is cost per square foot to build. Appraiser No. 1 arrives at $185/sf, Appraiser No. 2 at $195/sf and Appraiser No. 3 is coming in at $140/sf. All three claim the source of this cost data is from their Marshall & Swift Residential Cost Guide and, here's the kicker - contractors.

Now for the cost to build a garage: Appraiser No. 1 states $25/sf for an attached two car garage, No. 2 at $55/sf for a detached single car and finally, No. 3 at $50/sf for an attached single car. I'm so thankful for their Cost Guide and for out-of-state contractors to give these three appraisers such uniform pricing guidelines.

You know, I called a couple of local contractor friends of mine and do you what they told me after I ran these numbers by them? They replied, "What a bunch of Bovine Excrement!"

The final step in the cost replacement approach is factoring in depreciation once site valuation and cost-to-build have been established. Depreciation determination is such a bunch of garbage that I won't even go there. They just make up that number. The values based on the cost replacement method from Appraisers No.1, No. 2 and No. 3 magically equals their values based on the sales comparison approach. Give or take a few bucks.

You see, once they add the lot value plus the cost per square foot to build, the result is a value for a brand new house. But since just about all homes are older, they need to deduct from this result to arrive at a number that will match the value established by comparable sales. So they deduct depreciation, which they make up so that the final result does match. Cool, huh? Amazingly, appraisers are actually licensed for this. Even more amazing is that lenders swallow this garbage hook, line and sinker.

The sales comparison method is really the only appraisal method readily accepted by lenders and takes up most of the space on the appraisal form. By the way, all appraisal reports are uniform in format and approved by Freddie Mac and Fannie Mae. They are called Form 70 and Form 1004 respectively. The appraisers fill in the blanks with numbers and comments that they make up. I'm just kidding ... sort of.

The entire idea for sales comparison is to compare the subject property with similar homes. In other words, if a house down the street and similar in size, condition and amenities as yours sells for a given price, then one can assume that your home is worth the same. However, houses are like snowflakes (and appraisers). So they make adjustments to the comparable home and yours to arrive at a value. But here lies the problem – appraisers don't seem to have a standard for adjustments. They just make up a number. I tell you, its duck soup to be an appraiser.

No two homes are exactly alike especially in older neighborhoods. Even in newer "cookie-cutter" developments such as Seaside Highlands with ten different floor plans, there is always one that is slightly better in either site location or interior amenities. So adjustments need to be made to bring them to comparable value. For instance, appraisers have been known to compare a 3 bedroom 2 bath 2200 square foot home with a 4 bedroom 3 bath 2800 square foot home and tell us that both houses are worth the same price. How do they do that, you ask? Read the following actual conversation with a homeowner and appraiser:

A proud homeowner exclaims, "You're telling me that dinky dump of a shack down the hill is worth the same as mine?"

“Yep”, the appraiser confirms in an uppity tone. “I made adjustments.”

“What kind of adjustments?” the frustrated homeowner asks.

“I dunno exactly. I just make up some numbers to make it work”, replies the highly certified and licensed appraiser.

Appraisers will try to find recent sales in comparable size, but that is a near impossibility. Now let’s take another look at my three separate appraisal reports on the three separate properties. Granted that the subject properties are really different in size, condition and location with each other but it’s the adjustments that I want to question.

Appraiser No. 1 from my reports in hand chose three comparables within 180 square feet of the subject property’s floor area. The third comparable had the exact square footage but had 4 bedrooms 2.5 baths to the subject’s 3 bedrooms and 2 baths. He used an “adjustment” of $40 per square foot for comparables 1 and 2 and $2,500 for the room count difference for the third one.

Appraiser No. 2’s comparables were within 240 square feet of his subject’s floor area. He used $35 per square foot and no adjustments for room count, even though one comparable *supposedly* had an extra bedroom, which is not true. This is due to agent embellishment. . I know as I went inside this property myself. Unfortunately, the appraiser did not. The third bedroom measured about 8’ by 8’ and did not have a closet. The “armoire’ listed in the remarks section of the MLS was actually a large detached free-standing pre-fab cabinet from Home Depot.

Appraiser No. 3 was really lucky as her comparables were really close, all within 40 square feet of each other and the subject’s. She used $65 per square foot and no adjustments for room count since they were all equal in that aspect.

By the way, I asked a friend of mine who happens to be a FHA certified appraiser (with a college degree) what value he used for living area adjustments. He said $50 per square foot. He even admitted that a colleague in his own office uses $55 per square foot.   I’m telling you, it’s getting more disgusting by the minute.

Let’s review: Three or four different appraisers with three or four different factors for the difference in gross living area. So where’s the standard and uniformity in this aspect of the appraisal process? And that’s just one area of the Value Adjustments column of their form. There are 16 others! From age of the structure to quality of construction, they make these adjustments according to their whim and imagination. I wonder if they inhaled.

There are a couple of more Value Adjustment areas that really irk me, such as the values they use for lot size, design, view and condition. Trust me on this. All three of the appraisers assigned a dollar figure for these areas that absolutely make no sense at all.

But the one concept of the sales comparison approach that is just criminal is that these three appraisers never went inside the comparables. They even state so on their report. But how can that be, you ask? Where did they get the information? Didn't they even drive by the comparables to take pictures, which they included on their reports?

The answer: from the MLS. Even the pictures for the comparables were right-clicked from the MLS and saved to their drives to be uploaded on their report software. The appraiser didn't even have to get in their car.

But where did the MLS get the information? I was afraid you'd ask … from real estate agents. You see, we agents practice with the highest level of integrity as possible. However we are also experts in the art of embellishment. We are truly artists of fluff and sizzle. We take great pictures too and in some cases we hire professional photographers with wide-angle lenses to make the interior look real inviting. We also take lessons from appraisers.

For an example, you know that dinky dump of a shack down the hill from that proud homeowner I mentioned earlier? Well, that was my listing. You wouldn't believe what I wrote in the descriptive remarks section of the MLS. It worked. It sold. And the appraiser swallowed this comparable hook, line and sinker. There is something fishy about this entire appraisal process.

In summary, I do complain a lot, I know. But do I have an answer, you ask? Yes, I do! Let's insist that the State of California's Office of Real Estate Appraisers create a huge data base where all the appraisers must submit their appraisals for review by other appraisers. Then maybe they can arrive at a standard of uniformity.

* Appraiser No. 1 is from Carmel Valley. There is no listing for him in the most-recent Yellow Pages under Real Estate Appraisals. What's up with that? His license is #AL034821. Even though he is from Monterey County, this is the guy who stated that lot value in Seaside is worth $106,000!**

Appraiser No. 2 is from Aptos in Santa Cruz County. License # AR035784

Appraiser No. 3 is from Santa Cruz and his colleague who is not yet certified and working under his license performed the appraisal. His license is # AG002051 as the Supervisory Appraiser and hers is # AR039930.

Did you know that the public can look up an appraiser's license status just like one can with real estate agents? Ours is www.dre.ca.gov and they have www.orea.ca.gov however you only need our license number to look us up. You'll need the appraiser's blood type to look them up.

****** Appraisers should contact the county assessor. I just received the Notification of 2010-2011 Assessed Value Change and my Seaside property's Land Value is now worth $144,540. My lot measures 5,625 square feet.