Real Estate Appraiser

Vital Information

____

Start-up Investment

Low - $3000 (for word processor and camera, using the family car)

High - $10,000 (includes an office, car lease, and some advertising)

____

Break-even time - Two months to one year

____

Estimate of Annual Revenue and Profit

Revenue $70,000 - $3 million (one person at low end; supervision a staff of appraisers at high end)

Profit (Pre-tax) - $60,000 - $500,000

____

Real Estate Detectives

The function of a real estate appraiser is to determine what a particular piece of property is worth. Clients for this industry can be found in a number of different areas:

Government: every time the government condemns a property or reassesses taxes, they will need to know the value of the property.

Attorneys: whether they are distributing an estate or representing clients in a business partnership break-up or marriage where couples or partners must divide real estate.

Buyers and/or sellers: before listing or buying a home, individuals will want to know the value of their property.

Insurance carriers: before making property damage settlements, insurance carriers will want to know the current value of the property they are insuring.

Banks: loans are not made or a home foreclosed on without the value of the property being established.

Appraisers can either specialize in one of the above or just handle residential or commercial properties, but many larger companies cover all the bases. Not all areas of real estate are moving at the same pace at the same time. If an appraiser is able to handle a cross-section of the market, he can stay busy dealing with residential when commercial is soft and vice versa.

Method to the Madness

Real estate appraisers don't just look over a property and make a well educated guess when evaluating the worth of a particular property. Appraisers are required by the two professional societies that represent the industry -- the Society of Real Estate Appraisers and the American Institute of Real Estate Appraisers -- to apply the following approaches;

Cost Approach: First you ascertain all the separate parts of a property -- what was originally paid for the property and the structure (s) on the property. You're not looking for construction flaws so you don't need to be an engineer, but you do have to have a basic knowledge of construction. Then you need to establish what the construction costs would be if you were building today. Then you deduct the depreciation on the existing property since its purchase and construction. The end result: the cost of the property.

Market Data Approach: Comparing sales in the same community that compare with the property you are appraising. You must add any appreciation or deduct any depreciation and adjust for differences such as size or upgrades.

Income Approach: This approach assumes that the owner might wish to retain the property and garner income by renting it out. You would need to compare the rentals charged for similar commercial or residential structures in the same community and calculate what your client may make as a net income prior to mortgage payments.

Appraisers are expected to use all three approaches to arrive at the fair market value of the property they are appraising, unless there are no income-producing properties in the same area.

Determining the value of a property involves a great deal more effort than just going to the courthouse and finding out what similar property has recently sold for. It is necessary to determine the reasons a property sold for what it sold for.. An appraiser needs to look beyond the bottom line on the deed. Perhaps the negotiations stretched over a long period of time -- the deed (and agreed upon price) could be dated a year or two earlier than it was actually finalized. Perhaps a seller was in a bind and sold below market because he/she was making an overnight move. All of these factors must be examined when determining the property's value.

Here's where you really have to make like Sherlock Holmes. You will have to dig up clues through your detective work -- talk to the buyer and seller or the attorneys and real estate brokers involved in the sale. A good deal of an appraiser's fees are predicated upon their good judgement and their ability to get to the bottom of a real estate deal and find accurate and meaningful numbers.

You can really capitalize on your leg work if you are able to appraise more than one similar property within a reasonable time period. Most lenders require residential property comparisons no more than 6 months apart although commercial properties may stay current for a much longer period of time.

Nuts and Bolts

Few appraisers charge strictly by the hour. The type of appraisal required varies dramatically from client to client. For example, a bank may supply much of the back-up information and provide a form for you to fill in, thus cutting down greatly on the amount of time required to make the assessment. On the other hand, a homeowner may want a written report which requires more extensive research and a lot more time. Typically appraisers for commercial real estate take much longer than for residential properties. So when structuring your fee schedule, you will have to consider all of the above factors and many more.

Most successful appraisal firms fall under two categories: solo appraisers with no overhead and large firms with 15 to 30 employees. The in-between firms have problems meeting their overhead because they need the same data as a large firm and are not generating the income to meet the expenses.

A solo operator can easily run his/her office from a spare room in his/her home and needs to have a minimum of equipment: a telephone, tape measure and camera. You can use your own car to travel from property to property, and if you can type, buy a typewriter (or preferably a word processor). You will also need to advertise, perhaps in professional banking or law journals or in the Yellow Pages.

To grow -- Yes or No?

Adding a partner will probably also mean adding office space and a full-time secretary. These two additions to your overhead can equate to 50% of your fees. And in supplies, car insurance, and taxes such as Social Security, and you're adding anywhere from 0% to 25% more your fees.

Marketing will become more and more crucial as you grow because you will want to grow as fast as you can in order to keep fees increasing at the same rate as your overhead. As mentioned before, medium-sized firms are not cost effective because three appraisers need as much data as 100 appraisers.

Networking will also help increase your deducting skills. If you have strong real estate contacts you may be able to go through their files instead of wading through stacks of information at the courthouse. A number of real estate appraisal firms join real estate organizations which provide updated sales prices and descriptions of properties.

Another area which can become income producing is real estate brokering. Some appraisers consider this a conflict of interest but there is no law against putting some of your profits into investments or development of properties. If you're a skillful detective and have confidence in your own abilities, who would know a good deal better than you?

Resources

Industrial Associations

American Institute of Real Estate Appraisers, 430 N Michigan Ave.,Chicago, IL 60611 (312) 329-8559

Society of Real estate Appraisers, 645 N Michigan Ave.,Chicago, IL 60611 (312) 346-7422

American Association of Certified Appraisers, 7E. Swin Dr.,Cincinnati, OH 45218 (513) 825-1603

For additional information helpful in setting up your new business, taxes, insurance, and much more refer to the Business Start-Up Fact Finder Manual