



# Realty & Valuation Newsletter

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**AMERIVAL**

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## **REAL ESTATE SPRING!!**

**Albert M. Cerone, IFAS, FELLOW, CTA**

**APPRIASAL LIABILITY CASES-** For appraisers there is a website, Appraisalscoop.com which one must be registered in order to read the details of a topic. The following is an excerpt, ".... *One thing that is remarkable overall about these appraiser litigations is that they continue to be filed long after the peak of the real estate bubble and beginning of the lending crisis in 2006-2007. Most of the claims in these cases concern appraisals delivered in 2005-2006.*" I'm befuddled about the shock of the time period for which according to the article is that in which most of the liability has originated. 2005 - 2006 was that period in which the crescendo of value or price excitement occurred. This was the period in which lenders were at 100% financing based on "guaranteed value increases each month, at least in the words of most lenders, take-outs and real estate brokers. That value frenzy time is what brought the crash of 2007 and 2008. The fact that the cases didn't initiate within that period or even shortly thereafter is because the damage wasn't recognized until at least one year later. However, the public was still making payments and the real damage didn't occur until the overall economy collapsed which then brought true national attention to the real estate dilemma which was created.

The article within the website is well stated and presumed accurate. It addresses the financial magnitude of the litigation and the type of cases which draw the focus. It was stated (my interpretation) that there are cases which do not name appraisers or appraisal firms which leads one to understand that those cases are against AMC's (Appraisal Management Companies) and other controlling entities involved in real estate lending. Lenders relied upon appraisals in order to support real property values on which the loans were based. As all appraisers involved in valuation for lending purposes over the past 15 years know the institution of AMC's created havoc for the entire lending practice. Allegedly, their purpose was to insure continuity in appraisal practice nation wide and reduce the liability of lenders because of this control. However, in practice it failed badly. Lack of truly professional review personnel and practices; and, the selection of appraisers with nearly no consideration for geographical competence created a deeper chasm of confusion, misinformation and

supportable and defensible value conclusions. What it did accomplish was reduce the appraisers' fees. No, not the fees to the public but the fees to the appraisers who now in many cases were and are not the right "person for the job". As I am seeing based on my liability practice banks are still the main protagonist in the law suits and are seeking damages for properties which they held or are holding as REO (real estate owned). Oddly, it is the appraiser who is identified as the perpetrator of the bad loan; not the banks underwriting procedures and staff. Each appraisal had to pass through an underwriting process which most likely was faulty from the "get go". So, we are back to the understanding which we have stated time and again. "The appraiser only serves as the financial safety net via their liability insurance. The property value was not the lenders concern; *just the deal.*

Courtesy of

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**REAL ESTATE IN ITALY-** Having been able to vacation in Italy and the island of Sicily, I became aware of real estate scenarios and values. While looking at real estate and reading about it there, I realized that there is little difference in attitudes toward certain real estate conditions with some exceptions. For the most part people there first consider their dwelling needs...sound familiar? The ads for available housing clearly set forth the number of rooms and bathrooms and because of differences in design from that to which we are accustomed, the floor levels for the different rooms. We had the opportunity to visit my adopted brother's cousin's house in a little town in Calabria. It was four levels and had typically one room on each level. That likely was a need based on the location of the dwelling in the block of attached similar dwellings. Much as happens here the Italians years ago made best use of limited space. The accoutrements were Spartan but it served the typical needs. Each room had a single light bulb hanging in the middle of the ceiling. All windows had shutters which allows the inhabitants to close during the hot days with the Sun pouring to avoid the heat. Few places have air conditioning in the smaller villages. Although over the years which I have visited Italy, I do see more and more air conditioning. Stoves are often referred to as Hobs and I don't know why. They are simple small ones because of the cost there for the average Italian. But the Italian meals are made and very well. So, I guess it's the cook that makes the differences, not the price of the stove and oven.

Italy has many hills and mountains. Dwellings are spotted throughout the country on these hills. Often you can't see roadways and you wonder how they get to those buildings. The other thing you come to realize while driving the crazy hills of Italy is that there is access but the roads are simply dangerous at best. They are not just winding, but very narrow and often not wide enough for two vehicles so someone as to back up. And the story goes on. Overall, dwellings sell for less when further up a mountain or hill than those nearer the bottom unless there is private access or reasonable access and the dwelling is more exclusive. What price privacy? There is a house on a small island in the Barnegat Bay which can only be accessed via helicopter or boat. Boat is the more common mode of access and in fact the owners own a lot on the island so they can dock their boats when leaving there private island. Very interesting valuation problem. Privacy vs difficult and costly access. The concluding factor is what the dwelling has to offer to a specific market. Having at one point being involved I can't set forth an opinion here.

In the states, it has been found that properties on the upside of a roadway have more value than a similar dwelling on the downside. Houses on a cul-de-sac have greater value than those on an inline street. These are real factors that many appraisers even miss. Corner properties typically have lesser value than inline ones because of the zoning requirement for greater setbacks which reduces the privacy and limits the overall site usage. This too is commonly missed by appraisers.

In Italy many house are on a steep hillside and the only access is steps. So, the advertisements for properties for sale will contain the number of steps to reach the abode. The greater the number of steps the lesser the value compared to similar properties without as many steps. I'm sure there is a formula one could arrive, but I have no idea.

The greatest mystery in Italy from my perspective is the anomaly that I have yet to encounter here in the states. There is ongoing building although minimal on the slopes of volcanoes. While in Taormina we watched a rare occurrence of Mt. Etna, the only active volcano in Europe, spew its thick dark smoke. It was scary, but still an incredible sight. And there are villas along the base and part way up its slopes. The same is true in Campania with Mt. Vesuvius, which is considered dormant. That means it's not inactive it's just waiting for the next time it blows and unfortunately will likely create a second Pompeii for others to see 100 + years later; as we do today from the last burst in 79 AD. It's last eruption was in 1944. The statement when visiting incredible Pompeii is its not a matter of "if it blows, but when it will blow". Yet there is demand for dwellings on its slopes. Each person or family that buys there simply is gambling and to them it's worth the gamble. If you know of a place or two here in the states that people are similarly reacting, please write and let me know. I'd like to pass it on.

So, whether Italy, Spain, Ireland or wherever, there is little difference in the mindset of people who seek and own housing. I'll discuss the commercial properties in the next newsletter.