

BROKERS WEEKLY

Runaway market has appraisers, brokers and bankers in spin

By KONRAD PUTZIER

When Brown Harris Stevens introduced its newest luxury listing at River House to the market last week, eyebrows were raised all around town at the asking price.

At \$130 million, the 62,000 s/f residence that could be created in the building's current club house would be the most expensive home ever sold in New York City — but it would still be a bargain.



JONATHAN MILLER



ERIC HAIMS

The sale — if it ever happens — would work out at just under \$2,100 per square foot, while the current record for the city is \$10,000, according to the *Wall Street Journal*, which was first to report the story.

BHS press office was too busy dealing with media inquiries from “international news organizations” last Thursday and Friday to give *Brokers Weekly* any information on how the asking price was calculated. However, it is accepted practice that Manhattan brokers are in charge of price tags.

Usually the broker provides an opinion to the seller on what the home is worth and the pricing strategy. That price is achieved through the use of comparables, such as what similar homes have recently sold, what's already in contract, what is available on the market...

Appraisers get involved when the bank is lending money to the buyer,

although some non-bank transactions may also involve an appraiser. While some sellers do retain the services of an appraiser to help price their property before listing it, the city's brokers are considered to be on the front line of pricing and, therefore in the best position to set an asking price.

During a separate conversation before the River House mega-listing hit the market, Alice Palmisano, executive director at Brown Harris Stevens Appraisal & Consulting told *Brokers Weekly*: “Brokerages often call a number of brokers, they are good at determining an asking price. It's rare that I am asked for my opinion for an asking price.”

When the market is level or moving at a normal pace, it's not an issue. But when there is a run-up like we're in now, undervaluing can happen.

— ERIC HAIMS

But as prices in Manhattan appear to have re-entered the stratosphere following the 2008 crash, it's appraisers across the country who are coming under fire for allegedly undervaluing homes.

According to Trulia, appraised home values have been five percent below market value across the nation in the third quarter of 2013.

Josh Moffitt, president of Silverton Mortgage Specialists, Inc. in Georgia, said this causes a real problem for homebuyers because mortgages will only pay for the appraised value, and the buyer is responsible for coming up with the difference between the appraised value and the purchase

price. The appraisers argue the blame should be directed not against them, but against banks trying to get valuations on the cheap.

Since the Lehman collapse, financial institutions have increasingly relied on so-called appraisal management companies (AMCs) to value properties.

AMCs work as middlemen between appraisers and banks. They guarantee faster and cheaper results — but potentially at the expense of accuracy, some appraisers argue.

“Banks relying on AMCs pay appraisers 50% of the market rate, and don't emphasize local market knowledge,” said Jonathan Miller, CEO of Miller Samuel. “The criteria for choosing them are whether they have a license and are willing to work for a certain fee. Three out of four appraisals in the luxury market are probably done by someone with limited market knowledge.”

Several news reports over the past year have criticized appraisers for allegedly undervaluing homes — “the housing market's latest obstacle,” according to *The Wall Street Journal*.

The critics claim that appraisals often haven't kept up with rapidly rising home prices, especially in the luxury segment.

Some have also suggested that appraisers tend to undervalue homes in an over-reaction to the period pre-2007, when homes were often valued too high.

By undervaluing homes, the criticism goes, appraisers prevent many mortgage-financed purchases and slow the housing recovery.

There is little doubt that increases in real estate prices over the past year have made accurate appraisals more difficult. “We're dealing with a market that's moving really quickly,” said Eric Haims, senior vice president at Jerome

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It's how much?

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Haims Realty, a real estate appraisal and consulting firm in New York.

“To hit that moving target, appraisers need to have contacts with numerous brokers, they need current information, like contract prices and market trends.

“When the market is level or moving at a normal pace, it's not an issue. But when there is a run-up like we're in now, undervaluing can happen. But it's not intentional.”

Valuing luxury properties in this market environment poses a particular challenge, according to appraisers.

“There are a lot of nuances on a building (in the luxury segment) level that impact comparability,” said Miller. “It's a smaller submarket and properties are more unique.”

Despite these challenges, appraisers say they have done a good job. Inaccurate valuations, they argue, are mostly done by low-paid appraisers from out of town.

“With appraisals, you get what you pay for. How much time you can put into it if you get a fee of \$250?” said Palmisano, at Brown Harris Stevens.

“I think it's a tremendous problem,” added Marilyn Weitzman, president of the Weitzman Group. “When appraisers aren't familiar with the area and are just filling out a form, they won't have the necessary skill, and they will make mistakes.”

The market where undervaluing is most likely — luxury properties — is also least vulnerable to its negative effects. Since many high-end properties in New York are paid for in cash, valuations and mortgages play less of a role, according to several appraisers.

More importantly, inaccurate appraisals are the exception — at least in New York.

Douglas Elliman broker Raphael de Niro said he hasn't encountered undervalued homes since 2011.

Dan Neiditch of River 2 River realty said he's had no problems in the last six months. “The appraisals have been coming in pretty much in line with what we expected.”

And Stanley Ponte, senior global real estate advisor at Sotheby's International Realty in Manhattan, concurred.

Ponte added that, in the exalted world of nine-figure homes, “no-one is taking out a loan for 80 percent of the value, they're paying cash,” said Ponte.

“When you get into the ultra-luxury market, it [setting a price] becomes more of an art rather than a science based on what all of the professionals involved with the property predict the market will pay.

“The prices keep getting higher because New York is a global city and people who own homes in London and Hong Kong also want homes in New York.

“Quite frankly, our numbers look small when you look on the global stage.”

For the record, the most expensive home in the world is apparently Queen Elizabeth's London abode, Buckingham Palace which, with its \$1.56 billion estimate, makes the River House look like a bargain indeed.

Sorry though, it's not for sale.