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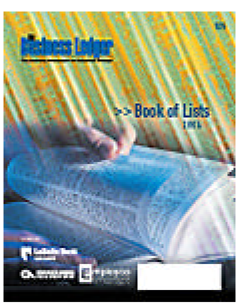

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So Many Appraisers, So Little to Appraise

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The recent real estate boom has lifted the appraisal business to new heights, but rising interest rates may leave some appraisers out in the cold as business begins to dry up.

Since late 2002 the real estate market has been unusually strong. Low interest rates spurred many into refinancing their homes or purchasing new ones as an investment, rather than taking risks in a then-turbulent stock market.

All of this activity supplied appraisers with more work than they could handle. It was so busy that many firms began to hire new people in large numbers. But it's a seemingly positive trend that could have a negative effect.

"Because of the demand that took place after 2001 when the refinance market took off, a lot of businesses took on people that they normally wouldn't have," said Ted L. Schneller, president of Krueger Appraisal Services, Inc., in North Aurora. "When the refinance market dried up there weren't enough jobs to go around."

Older and established firms may not have a problem, but the market is now oversaturated with associate appraisers, who are more like apprentices. They have passed the state licensing test, but they must work under a certified appraiser for two years before they can use that title.

According to Alvin "Chip" Wagner, president of A.L. Wagner Appraisal Group in Naperville and a member of the board of directors of the Appraisal Institute's Chicago Chapter, there are currently 3,945 certified appraisers in Illinois and 3,208 associate appraisers.

"Forty-four percent of appraisers are at the trainee level," said Wagner. "That is a huge influx of appraisers."

Wager also fears that many of the unestablished appraisers will suffer in the coming years. While they may have gotten into the business when there was a high demand, there is no need now for such a large number of appraisers.

"We had three or four years of low interest rates and high demand," said Wagner. "It is unusual to see it last that long. Now, everyone is forecasting a big downturn and a lot of associates will be looking for work, but there won't be any."

Like many businesses, real estate is considered to be a cyclical market. Interest rates are usually fluctuating up and down from year to year, but rarely do they stay in one place for an extended amount of time. This may have triggered the massive hires that now trouble the industry.

As a result, competition has now become more fierce.

Wagner said that some firms will now promise project completion in two to three days, whereas the industry standard may have been a few weeks. If a firm is not willing to match those numbers, then it may find itself losing a customer.

The only way to survive is to be able to diversify beyond the traditional residential and commercial appraisal jobs, said Wagner.

Many companies get involved with more than just lending.

"We work with a lot of government agencies like DuPage County on road widening projects," said Schneller. "We also work with divorce lawyers on estate appraisals. On the dark side of the business you can do the appraisal on a foreclosure in bankruptcy cases."

Still, the overwhelming majority of business comes from lenders such as banks and credit unions.

"Fifty-five percent of what we do is commercial real estate," said Richard Wojtecki, president of United Community Bank in Lisle and the company's chief credit officer.

Wojtecki said that the bank chooses appraisal firms from an approved list that it has developed over the years; there are usually about 10 companies on that list.

"Some of them have specialties, like apartment, residential, refinancing or commercial," said Wojtecki. "However, the bottom line is, you don't know how good an appraisal firm is until the property sells."

Tim Bailey, a real estate appraiser for Great Realty Advisors in Oak Brook, noted that being on a financial institution's list is the best way to get business.

"If you are one of the five that they go to, you get pretty busy," he said. "If we are not on someone's list we will send marketing packages with samples of our work."

Typically a firm will find out what kind of work a lender needs and then will market toward that specialty. If the lender needs to appraise an apartment building, the appraisal firm will send them its latest apartment appraisals.

Bailey also said that word of mouth and referrals work just as well.

"If a potential client sees that you have done good work for J.P. Morgan they are more likely to follow," he said.

Appraisers work on a flat fee, with commercial appraising being slightly more lucrative.

Bailey estimates that on average an appraisal for a commercial property will cost around $3,500-$4,000, depending on the size of the building and allowing for a three or four-day work period.

A residential appraisal will run around $275 for a four-to-six-hour work period.

Krueger's Schneller prefers commercial appraising over residential, not only because it is more lucrative, but also because it is more like a business transaction.

"In commercial, people are more objective," he said. "They are not concerned about school districts or whether or not there is a southern window in the kitchen. All they want to know is 'Can I build my widgets here?' It's all dollars and cents."

However, as the refinancing market begins to slow, sales will have to drive the market. Sales have been good, but whether or not they continue is unknown.

"2003 was a good year, but everything started to slow down in 2004," said Kevin Schulenburg, president of Valumasters Inc., in St. Charles. "I expect to see that continue in 2005, especially with Alan Greenspan predicting that interest rates will increase even more. However, the purchase market should be strong. That historically picks up in February."

According to A.L. Wagner's Wagner, the 10-county area in northeastern Illinois had sales of 75,000 residential units in 2002, 127,390 in 2003 and 133,695 in 2004. He agrees that interest rates will determine future sales.

"I predict that sales will be strong as long as interest rates stay under 7 percent," he said.

Commercial real estate has slumped over the last few years because of high vacancy rates in the Chicago area that have driven down rental costs, but now it has seemed to stabilize.

"Commercial is turning around," said Great Realty's Bailey. "We are not building as much new office space and rental rates haven't dropped in the last couple of quarters."

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