



OCTOBER
RESEARCH
Corporation

2007

NATIONAL APPRAISAL SURVEY

A Snapshot of the Real Estate Valuation Industry

EXECUTIVE OVERVIEW

Volume I **Appraisal Business Practices**

December 2006

The follow-up to the
**2003 National
Appraisal Survey**
has arrived!

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Survey Background

In 2003, October Research Corporation, an independent publication and research firm located in Richfield, Ohio, conducted the groundbreaking *National Appraisal Survey*. The 2003 *National Appraisal Survey, Unveiling the Secrets of the Appraisal Business*, was the first survey to investigate the business practices, effects of the economic environment, pricing, client relationships, industry-specific technologies and state regulation in the real estate appraisal industry. The survey compiled the results from a total of 500 select residential real estate appraisers across the country. The survey results reported that residential appraisers were under significant pressure to overstate property values and conditions. Results shocked the industry when 55% of the appraisers surveyed indicated that they felt uncomfortable pressure to overstate property values in greater than half of their appraisals.

As a follow-up to the 2003 *National Appraisal Survey*, October Research Corporation is taking a more in-depth look at residential valuation pressure and its influence on the real estate appraisal industry. The 2007 *National Appraisal Survey, A Snapshot of the Real Estate Valuation Industry*, is a three-volume release presenting a national perspective of the appraisal industries' business practices, customer relationships, and technology usage and tools. The 2007 survey will produce a comprehensive picture of the appraisal landscape, with trends and factors influencing the future of the real estate valuation business.

Now available is **Volume 1: Appraisal Business Practices**, which identifies industry pressure on appraisers and how that pressure affects the outcome of property values. The survey provides comprehensive data and analysis measuring the levels of appraisal pressure in the residential valuation industry to restate/adjust/change a property value. *Volume 2: Customer Relationships with Appraisers* will be released in March 2007, and *Volume 3: Technology Usage and Tools* will be released in July 2007. These surveys will also offer primary research data on the business customs that appraisers are using to grow their business and the challenges that the real estate valuation industry is facing.



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Survey Methodology

Volume 1: Appraisal Business Practices survey was completed by over 1,200 certified residential and licensed appraisers, with participation from a statistically proportional cross-section of the appraisal industry, representing all 50 states, the District of Columbia and Puerto Rico. The percentage of participants from each state was proportionally to the number of appraisers resident in each state (as verified through comparison to the Appraisal Subcommittee National Registry). October Research would like to acknowledge and thank the Appraisal Institute and other industry organizations that solicited its membership to actively participate in the national survey. Respondent appraisers represented participation by a total of over 10 professional appraiser organizations.

While there were no pre-qualifications for participation outside of certification or licensing, 76% of participating appraisers had more than ten years appraisal experience with 55% holding a professional designation. Nine professional appraisal organizations are significantly represented in the survey.

The survey and data collection was conducted through the use of an independent, national survey vendor. Respondents were asked to answer 31 multiple choice/check all that apply questions, and two open-ended questions. Survey questions requesting a multiple response, based upon percentage of business, required the overall answer percentage to equal 100%. Percentages for multiple choice questions asking the respondent to "check all that apply" were derived by dividing the total number responses for each choice into the total number of respondents answering the question.

Based upon more than 1,200 respondents, the margin of error for "check all that apply" questions is +/- 2.8%. The percentage error for multiple choice questions is slightly higher at +/- 3.2%. Appraisers were not required to respond to all 33 questions. The margin of error may vary by question as the error rates may be higher for questions where fewer people responded.

The 2007 National Appraisal Survey is the result of an electronic survey soliciting voluntary participation from certified, residential and licensed appraisers throughout the United States. No other pre-qualifications such as years of experience or number of clients per a specified time period were used to qualify the participants. Each survey respondent is restricted by a unique identifier which permits only one completion of each volume's survey. Volume 1 of the survey was conducted during the second half of 2006. The surveys for Volume 2 and Volume 3 will be conducted in 2007.



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Executive Overview

PRESSURE INFLATES FOR REAL ESTATE APPRAISERS TO OVERSTATE PROPERTY VALUES

The housing market is entering a slowdown in volume after several years of high activity. The market for appraisal services, as well as for other real estate-related products, is slowing down overall. In the current market environment, the mortgage, realty and secondary markets need to recognize the potential risks from pressuring appraisers to overstate property values and conditions.

The results of the first volume of the 2007 National Appraisal Survey show an alarming increase in pressure on real estate appraisers to adjust property values. 90% of respondent appraisers indicated they felt pressure to restate/adjust/change property valuations, up 35 percentage points from levels reported in 2003, representing a 64% increase.

Appraisers' clients, particularly mortgage brokers and real estate agents/brokers, have increased the frequency of requests to restate/adjust/change property values. 71% of appraisers reported uncomfortable pressure from mortgage brokers to overstate property valuations, up 11 percentage points from 2003 and representing an 18% increase. Real estate agents and brokers exerted similar pressure at 56% of the time, up 9 percentage points from 2003 and representing a 19% increase. One-fourth of the respondent appraisers felt that valuation pressure has increased within the last few years.

Refusal to cooperate with requests to overstate a property value often results in the appraiser losing the client or not getting paid for the appraisal. Over two-thirds (68%) of appraisers who refused to restate/adjust/change a property value lost the client, while almost half of the appraisers did not get paid for the appraisal (45%).

For complete survey information, visit: www.octoberstudies.com/nas07



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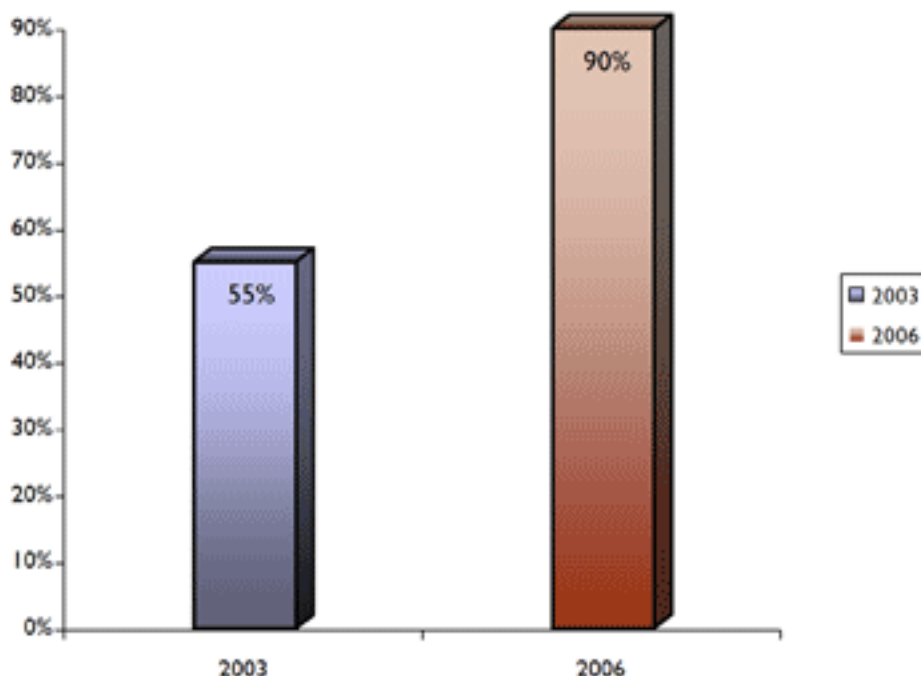
Key Survey Results

PRESSURE TO RESTATE/ADJUST/CHANGE PROPERTY VALUES

In 2003, 45% of appraisers surveyed never felt pressure to restate property values. In 2006, only 10% of respondent appraisers stated they never feel pressure to restate/adjust/change property values.

Comparatively in 2003, 55% of appraisers felt uncomfortable pressure to overstate property values. In 2006, 90% of participating appraisers indicated that they feel some level of uncomfortable pressure to adjust property valuations, up 35 percentage points from 2003, representing a 64% increase.

Pressure to Restate Property Values



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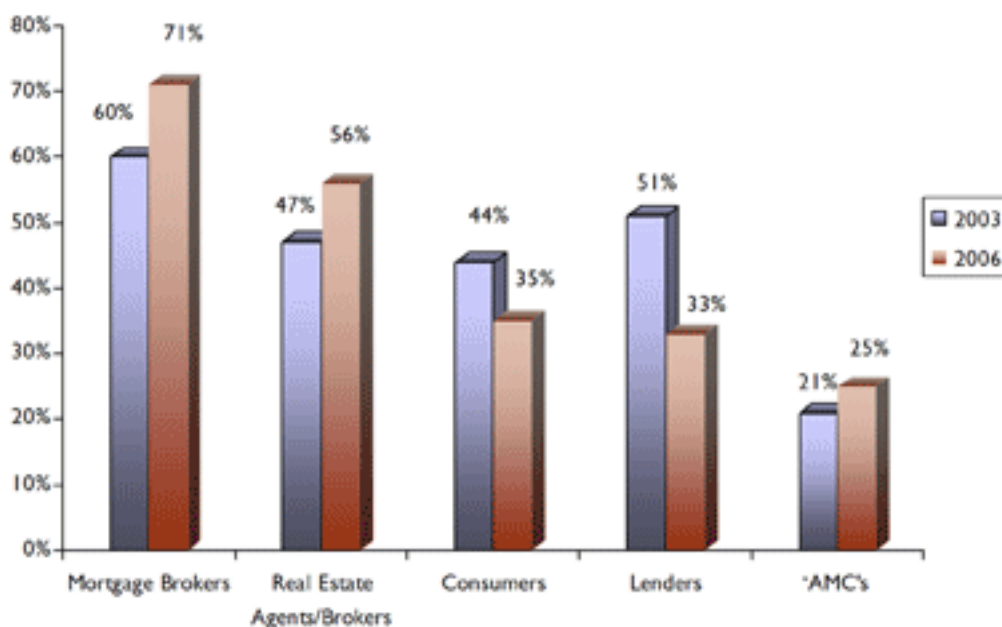


Key Survey Results (cont'd)

CLIENT VALUATION PRESSURE FREQUENCY*

71% of respondent appraisers reported uncomfortable pressure from mortgage brokers to restate/adjust/change property valuations, up 11 percentage points from 2003, representing an 18% increase. Real estate agents and brokers exerted similar pressure 56% of the time, up 9 percentage points from 2003, representing a 19% increase. Consumer and lenders show a decrease in pressure frequency, down 9 and 18 percentage points respectively, from 2003 (a 22% and 35% respective decrease).

Client Valuation Pressure Frequency



*Appraisal Management Company



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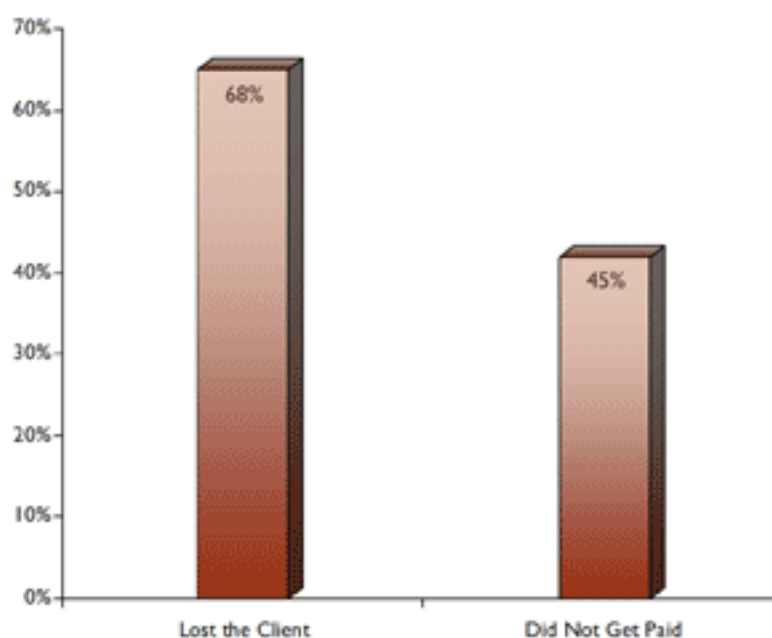


Key Survey Results (cont'd)

EFFECTS OF REFUSING TO CHANGE A PROPERTY VALUATION

75% of respondents reported negative ramifications if they refused to modify a property valuation. Of the respondent appraisers who felt negative affects, over two-thirds (68%) reported losing a client, and 45% did not get paid for the appraisal.

Effects of Refusing to Change a Property Valuation



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About October Research Corporation

Based in Richfield, Ohio, October Research Corporation is a global provider of market intelligence, business news and regulatory information for the real estate, settlement services and mortgage origination industries. In 2006, Case Western Reserve University's Weatherhead 100 recognized October Research Corporation as among the top 25 of Northeast Ohio's fastest growing companies. Reflecting its extraordinary growth, the company was named a top ten Weatherhead company by Case Western Reserve University in 2005.

The company publishes several premium newsletters including *Real Estate Technology News*, *The Legal Description*, *The Title Report* and *Valuation Review*. In addition to these publications, the company produces industry-leading news portals which include *BrokerNewswire.com*, *RealLawCentral.com* and *RESPAnews.com*. October Research's informational publications and newsletters are read by over 75,000 real estate service professionals each week.

The company also has two divisions supporting market research and executive education:

October Studies – Produces groundbreaking research reports, customized research studies and industry surveys for real estate, settlement services and mortgage origination firms which have included the *Mortgage Lender Survey*, the *National Real Estate Survey*, and the 2003 *National Appraisal Survey*, which was widely cited by the national media including *The Wall Street Journal*, CNBC and NBC Nightly News.

October Seminars – Delivers interactive audio conferences, local seminars and national conferences that assist real estate, settlement services and mortgage origination companies in educating key managers and executives. Industry executives are provided a competitive edge with ongoing updates on emerging trends, their competitors and customers. October Seminars has produced several pioneering audio workshops including the 2004 e-Radio Technology Series and RESPA Radio – Adapting to the Rule. In 2005, the company produced the nation's first National Settlement Services Summit, which is now established as an annual event.



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About the Sponsors

Forsythe Appraisal, LLC

Headquartered in St. Paul, Minnesota, Forsythe Appraisals, LLC was founded in 1940 by the grandfather of the company's current CEO and President. Forsythe Appraisals currently operates 32 branch offices nationwide, serving 19 states.

The company is owned and managed by John and Tim Forsythe, together with John and Jeff Turner, founders of Hillcrest Capital Partners (HCP). Located in Minneapolis, MN, HCP was established in 2002 as a private investment firm to make control investments in high quality businesses based in the Upper Midwest.

Valuation Review

Valuation Review is the only independent and full time newsroom that delivers mission critical information for appraisers, lenders, and secondary market executives nationwide. Our readers recognize Valuation Review as a trusted source for significant valuation industry news, feature stories and analysis to remain current in a rapidly changing market.

Twenty-four times a year in print and daily on the web at www.ValuationReview.com, Valuation Review provides timely and relevant news, features and analysis which will inform and educate readers. Recurring content includes business intelligence, technology, regulatory issues, trade news, new sources of business, and other related topics.



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