How much are you worth? by David Braun, MAI, SRA (Written 2007)

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Introduction
This article was first published on the Alamode/Labs web site and has been published on the Appraisal scoop web site. However, it is my opinion that artificially low appraisal fees are the number one threat to the appraisal industry today, making this subject very timely. The HVCC has ushered in additional concern about fees in our industry. Oddly enough, most of the blame for low fees lies with appraisers who continue to make artificially low bids on jobs. I want to be clear that I am not in favor of price fixing, even if it was not illegal. I am not going to bash the appraisal management companies either. It is my belief that many appraisers are ignorant about how to bid on an appraisal job. In the following discussion I will address how to develop your personal hourly billing rate (PHBR); how technology can improve your earnings; and how to properly price “odd” jobs. A program written in MS Excel can be downloaded to help you develop your hourly billing rate. - David Braun

I have developed a really bad attitude concerning the financial rewards associated with a good residential appraisal practice. I know that there are many residential appraisers out there who are exceptions to the rule and make more money than is typical. I will go on record here by saying that about 50 percent of those appraisers are not doing a very good job of meeting the required scope of work. Yes, I am saying that many appraisers have adapted to low fees by short-cutting on their due diligence.

This discussion is not for those appraisers as they believe the best way to achieve a higher gross income is by taking the “let’s not, but say we did.” philosophy in appraising. What is a fair charge for the appraisers who complete each task with the diligence necessary to contributing to the solution of the intended user’s needs? Antitrust laws prevent me from discussing the amount appraisers should charge for a specific job, or from setting a standard hourly rate for appraisers. This is alright, because there is no one hourly rate that is right for each appraiser and no one fee that is right for each type of assignment in varying parts of the country. While I think that the residential appraiser is having a much harder time in terms of earnings than the commercial appraiser, this discussion applies to both.
There are a couple of things appraisers must understand:

1. It doesn’t matter how much money you gross, only how much money you get to spend.

2. Clients do not care what you earn on an hourly or yearly basis; they only care how much you are going to charge to complete the next assignment.

Many appraisers who obsessively monitor their gross income have no idea what they really make in terms of disposable income. If you have an annual tradition of getting a large second mortgage in March or April of each year to pay the tax man then you probably fit in this category. It is often two or three years down the road before some appraisers realize he/she is apparently not making as much as they thought. You might believe that it is good if your competitors are earning less as they might go out of business thus improving your position in the market place. Quite the contrary, these appraisers are bidding against you with unrealistically low fees based on their need for immediate cash.

A good way to get a handle on what you really make in terms of disposable income is to properly formulate a target income that considers operating expenses, income taxes, retirement, health insurance, etc. The smaller the time increment that this is monitored on, the more accurate it will be. A targeted hourly billing rate is excellent in this regards and it is useful in quoting fees for odd jobs such as updates and very low end valuation assignments.

The first step is to decide upon a proper annual income figure. This is done by comparing the appraisal profession to other professions such as title abstractors, accountants, technicians, sales, etc. Factor in your regional area’s cost of living, your level of training and education, and years of experience. Keep in mind that many of these competitive salaries include benefits such as paying one half of the income taxes, retirement, health insurance, and paid vacations. If you are an appraiser that is paid on commission as a contract labor you will have to add for these. Consider three scenarios with targeted annual incomes of $50,000, $75,000, and $100,000 respectively. In these scenarios the appraiser is paid on commission as contract labor. Let add these benefits in to see what the appraiser’s net pay has to be equivalent to other professions.

<table>
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<tr>
<th>Income1</th>
<th>7.7% W/H</th>
<th>Retirement</th>
<th>Pd Vac</th>
<th>medical</th>
<th>Income2</th>
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</thead>
<tbody>
<tr>
<td>$50,000</td>
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<td>$1,923</td>
<td>$4,000</td>
<td>$64,773</td>
</tr>
<tr>
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<td>$2,885</td>
<td>$4,000</td>
<td>$95,160</td>
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<tr>
<td>$100,000</td>
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<td>$10,000</td>
<td>$3,846</td>
<td>$4,000</td>
<td>$125,546</td>
</tr>
</tbody>
</table>
This table shows that an appraiser who is a contract labor or self employed will have to earn $64,773 to be equal to a competitive job that pays $50,000 with benefits.

Next be sure to include an accurate picture of your business expenses. Whether you work for yourself or for an appraisal company somebody is paying from 20-30 percent in business expenses. If you are a commissioned appraiser you also pay auto, continuing education, etc. out of pocket. Considering these expenses how much would you have charge per hour to match the competitive salaries?

That depends on the following things:

1. The split you are paid (even one-person shops have to pay a percentage for operating expenses).

2. The amount of other expenses you pay such as driving, license, E&O, camera, etc.

3. Average hours worked per week

4. Number of weeks worked in a year

5. The ratio of billing to office time (this is basically the time you spend in the office, but are not working on valuation services). This can be low for company owners as any time spent running the business is time that is not spent appraising.

We will assume that the appraisers in these three scenarios are paid on a commission basis. We will use some generic parameter values (be sure to download and run some scenarios on the “HRLYRATE.xlt” program). The information interface in the Excel program is presented below.
If you are a contract labor who the following parameters might be applicable:

![Hourly Rate Setter](image)

The 12% are for expenses typically paid for by the commissioned appraiser such as automobile, education, license, and other expenses. The split of 55% may also better than what many appraisers are earning. The weeks worked per year is based on the appraiser missing work for vacation, illness, classes, etc. This estimates that the appraiser is actually appraising 90% of the time he/she is in the office.

So, for the commissioned contract labor appraiser to earn the same as an employee receiving benefits that makes $50,000, $75,000, and $100,000 he/she would have to gross $77.45, $113.78, and $150.00 per hour respectively.
If you are an owner and not on a split the following parameters might be applicable:

![AVT's Hourly Rate Setter](image)

Anyone who works for themselves knows that a considerable amount of time is spent in running the business-of-the-business. To promote good money management, I suggest that anyone who works for him/herself should pay themselves on a split basis as the money comes in.

For the self employed owner has to earn the same as an employee receiving benefits that makes $50,000, $75,000, and $100,000 he/she would have to gross $64.26, $94.40, and $124.55 per hour respectively.

It has been my personal observation that typical residential appraisers really only grosses from $40.00 to $60.00 per hour. The reason for this is that these appraisers are postponing dealing with retirement and other long-term expenses. They typically do not pay all they should on their quarterly taxes. All-in-all, they either have their head in the sand or they fear that they will lose work by being underbid by other appraisers. Keep in mind that this situation has spiraled to the point that many appraisers are paying bills on a month to month basis. Even a small break in workflow could push them into bankruptcy. This desperation and fear of changing to another profession (certainly few jobs are available today) have them extending their hours worked per week and they are only taking a minimum of education and vacation time.
Please take some time and download the “HRLYRATE.xlt” program and run some scenarios. Before you make your next quote think about the hourly billing rate that will result. Is it reasonable? Keep in mind that while ends seem to be meeting, impeding “Expenses” loom in your wake. If you find you have been quoting at an hourly rate that is too low considering edging your rates up a little at a time. Appraisers should develop a minimum PHBR that they just will not go below. In the end no one but appraisers are forcing appraisers to accept excessively low fees.

PRICING ODD JOBS
Once you have developed your own personal hourly billing rate you are empowered in pricing odd jobs. Take a request to “reassign” an old value opinion for example. You know this is really a new assignment. If the intended use was for secondary market and the updated assignment is also for secondary market then little additional work may be required, often as little as an hour if it is almost a copy over. However, if it was originally done as a drive-by and the new lender requires an interior inspection you might figure it will take 3 hours to do. Simply multiply your personal hourly billing rate times the time you estimate the job will take (If your billing rate is $80.00 an hour then your fee would be $240.00 (3 hrs. x $80.00).

Another example might be some work you are doing for a divorce situation. At this point they are not sure what they will need, maybe just the residential house, but maybe an office building as well. A good way to price this job is to simply quote your hourly rate to them. After all, lawyers do it, plumbers do it, and therapists do it. Performing work on an hourly basis is not traditionally done in the appraisal profession because we have historically focused mainly on lending work. Lenders ask for a fixed fee quote for filling out the “Good Faith Estimate”. In reality, a good faith estimate is just that, an “estimate”. As such, it does not require an exact appraisal fee, but it may be difficult to change everyone’s mindset on that. Certainly, non-lender work is not shackled with an inclination towards set fees. In my personal practice I have found that an hourly fee basis is acceptable for most non-lender work when tempered with a maximum limit. For example my quote is, “x dollars per hour and the fee will not exceed $3,000.00”. Keep in mind that if you charge per hour you must keep a work log that justifies your charges.
THE VALUE OF TECHNOLOGY
If you have instituted the use of some new technology that saves 10 percent in work time over your competitors then you should quote set fees based on the amount of time it would take your competitor to complete the assignment (not the time it would take you). If you quote your fee on an hourly basis you should add 10 percent to your personal hourly rate to pay for the cost of the technology. The benefits of state-of-the-art technology are leveraged in a highly competitive market. A good example of the technological benefits to the appraiser is illustrated in the “Bear Story”. The story goes like this:

_There were two hikers that unknowingly walked up on a grizzly bear. Startled the enraged bear charged them. As the two hikers were running away as fast as they could one hiker yelled, “We can't outrun that bear!” The other hiker replied, “That's OK because I only have to outrun you.”_

The bear represents the appraisal profession and the two hikers represent appraisers. The moral of the story is that even in a market where appraiser fees are low it is possible to succeed if you can “outrun” (outperform) your competitors. The advantage of appraisal technology cannot be over-stated.

This short writing only scratches the surface of the topic of earnings and billing rates. I hope this is enough to enlighten appraisers on the benefits of utilizing a well thought out system for setting fees; as well as the pitfalls of relying on a haphazard system with little or no cognitive input. This writing is not intended to advocate artificially high appraisal fees; as our work must be cost effective to users of our services. However, if enough appraisers are ignorantly setting fees artificially low then this will adversely affect the over-all market for fees- resulting in many appraisers cutting corners on their work and competent appraisers leaving the profession for better paying jobs and. A balance in fee structure (not too high and not too low) will ensure that reliable cost-effective appraisal products and services will be available to the general public.

You can download the Excel Workbook in the forum section of this web site. It will be in a “Discussion”.