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The million-dollar Zaiio question: Is it right for you?

2008 should be a telling year for Zaiio Corp.

By the end of the year, the company could be well on the way to its own equivalent of finding the Holy Grail - funneling on-demand appraisals to big mortgage lenders via its online database, according to CEO Thomas Inserra. But if Inserra's wrong, Zaiio will feel the heat from the appraisal industry.

What does the future hold for Zaiio? Why have some appraisers chosen to cast their lots with the company? What should appraisers think about when they're considering buying zones? What are some things new zone owners can do to make their investment successful? Why do some critics doubt that Zaiio will fulfill its mission to change the industry? Valuation Review spoke with Inserra, several zone owners and some appraisers who are less-than-enamored with Zaiio to get their views.

Appraisal industry divided

About four years ago, Zaiio kicked off its plan by which lenders order already-completed appraisals from a database on Zaiio's Web site - a process designed to cut appraisal turnaround times to a few minutes. Appraisers get paid any time a lender uses a report, or any data, they've uploaded to the database.

Five tips for making your zone investment pay off

So you've invested somewhere in the neighborhood of \$10,000 for a zone. What do you need to do in the early going to make it a success?

* Offer profit-sharing opportunities to other appraisers who help out - Entering zone data in Zaiio's database can be a time-consuming task, so, if you can afford it, hire some help. Offer to share profits with appraisers for any sales made from data they entered. You'll not only be building out your own zone: you'll be helping other local appraisers in their professional development, said Greg Colton, president of Colton Appraisal Group in Clinton, Md., and owner of 12 zones.

* Get to know your market ... now - A major premise of zone ownership is that the owner will become the top appraisal expert in that particular market. To speed up the process, go to open houses, talk to real estate agents and pore over the multiple listing service (MLS), said zone owner Greg Wood of A Better Way Appraisal Service in Redondo Beach, Calif.

* Embrace technology - While it's probably unlikely that any technophobes would sign on with a company that's trying to revolutionize the industry with a Web-accessible database, several zone owners still stressed this point. If buying a laptop, digital camera or personal digital assistant (PDA) will make your work easier, go for it.

* Take advantage of training resources - Wood said Zaio's training modules have been "very helpful in shortening (his) learning curve." The training modules cover the basics of using Zaio's software and following the company's appraisal and pre-appraisal processes.

* Network with other zone owners - Chances are if you're encountering a problem, another zone owner already has gone through the same experience. Zaio offers an online forum that is monitored by company personnel who answer zone owners' questions "in minutes," Wood said. But don't just rely on that. Get to know other zone owners at Zaio meetings, and when you have a question, don't hesitate to pick up the phone.

The company hopes to complete its goal of populating that database with photos and appraisal reports for every residential property in the U.S. in "three-to-four years," Inserra said. It has divided the country into about 7,500 "zones," groups of roughly 10,000 properties. Each will be sold to one appraiser, who is responsible for appraising its properties.

For a fee ranging from \$10,000 to \$12,500 - depending on whether the zones have already been photographed or populated with property data - appraisers get licenses for Zaio's appraisal software and the exclusive rights to use it for appraisals in their zones. So far, Zaio has sold about 20 percent of its zones. After purchasing zones, appraisers must then value all residential properties with 2055 exterior, "drive-by" appraisals, using Zaio-provided county record data, MLS listings and their own observations.

Risky business?

Not all appraisers share Zaio's vision. Some complain that the company's model is unproven and risky - lenders are ordering advance appraisals only in the company's test markets of Spokane, Wash., and Mesa, Ariz. Others complain about the cost of zones and wonder why they should pay for the right to do work they're already doing anyway. Some argue that the company's appraisal products, primarily its 2055s, aren't compliant with USPAP.

Blogs and online forums are abuzz with appraisers who distrust the company and its business model, with some calling it a "scam." The company's stock price has dropped sharply in the past year -- it closed on March 24 at \$1.66, about 70 percent off its high in 2007. The company's stock price has been climbing recently, however, and it has grown about four-fold overall during the past four years.

Zaio reported its full-year and fourth-quarter earnings on March 24. Full-year revenues soared to \$12.4 million, compared with \$289,000 in 2006 (all numbers are in Canadian dollars.) However, the company's net loss on the year surged, as well, to \$9.3 million from \$1.4 million the previous year.

Still others complain that, under Zaio's model, appraisers get paid only 44 percent of the price lenders pay for an appraisal report.

Many skeptics complain that the concept is too unproven and risky to justify what, for many one-person shops, is a substantial investment.

"If you do an ethical job as a Zaio zone owner/appraiser, it doesn't appear to be less work with more pay - in fact, just the opposite," said Sarah Goodwin a Portland, Ore., appraiser. "Paying \$10,000 to buy work and then input and upkeep the database that contains the work with no historical proof of return seems impractical to me."

About a year ago, Goodwin created a blog entry about Zaio on Active Rain, a real estate industry networking site. That blog entry has become so popular and generated so many user comments that it's the No. 5 result on a Google search for "Zaio."

Other skeptics echo Goodwin's assertion that joining up with Zaio isn't worth the money.

A post on one appraisal industry Web site questioned what zone owners actually own. The person argued that appraisers only get a promise of income at some point in the future, but that revenue potential has not yet been proven or demonstrated, and there are no certain timelines or performance guarantees for appraisers.

David Hintz, an appraiser with Accurate Appraisals & Consulting of Arizona, said he likes Zaio's "concept" of a national database of appraisals, but added there are too many variables involved with appraisals to make it practical.

"The majority of those not taken in by all the hype and hoopla associated with the marketing of Zaio . all seem to agree that Zaio is pretty much just a scam," he said.

Zone owner Greg Wood of A Better Way Appraisal Service in Redondo Beach, Calif, argued in a series on an appraisal industry blog that many Zaio bashers miss the

Key questions to ask yourself when considering Zaio zone ownership

Zaio has sold only about 20 percent of its 7,500 zones across the U.S. But the company advises prospective buyers to act quickly while supplies last, since some bigger appraisal firms have scooped up large swaths of territory, such as an Indianapolis firm that Zaio says bought all 45 zones in the city's metropolitan area.

Valuation Review spoke with Zaio and several zone owners to get tips on questions prospective zone owners should ask before taking the plunge:

* Are you willing wait a year for your investment to pay off? Zaio CEO Thomas Inserra said the company warns zone owners that it'll take between nine and 12 months after they purchase a zone to get it up and running in Zaio's database. And, like any investment, there are no guarantees of success. "There is a certain amount of risk," said Mark Silverstein, president of BayOne Appraisal Services in Tampa, Fla., which owns 12 zones. "If you're looking for a return in one day, it's not going to be there."

* Are you willing to put in the time and work? "You have to understand that it is a hell of a lot of work," said zone owner Greg Wood of A Better Way Appraisal Service in Redondo Beach, Calif. "I have 12,500 residential properties in my zone. . I have to go out in front

of every single one of those properties." A few zone owners said new owners should prepare to put forth more time and effort than they might expect.

* Can you afford to pass on work while you dedicate your time to your zone? It's not just the time you're putting into Zaio; you also have to consider what you would have otherwise done with that time. "A lot of people think the \$9,000 you pay for a zone is a lot of money, but it really pales in comparison to the opportunity cost of the time it takes to develop this database," said Kevin Allin of Anderson Appraisal Services in San Diego, which owns 14 zones. Allin's firm has 12 appraisers, but missing out on work is an even bigger issue for one- or two-person appraisal shops that have fewer resources.

* How serious are you about the appraisal profession? It may seem obvious, but zone ownership is not for those who aren't committed to the profession. "Clearly this is not for the weekend appraiser," said Greg Colton, president of Colton Appraisal Group in Clinton, Md., and owner of 12 zones.

point when it comes to the company.

They focus more on the company's instant 2055 product, he wrote, and ignore the potential to unite independent appraisers for a common cause.

The company's future may depend in part on whether it can deliver on that potential, but the nation's largest mortgage lenders figure to have a bigger say.

Answering the 'million-dollar question'

What most Zaio watchers wonder is when the company will strike deals with large, national mortgage lenders that will start ordering pre-completed appraisals by the bushel, in turn rewarding zone owners who've spent months canvassing their markets. Indeed, Inserra called that "the million-dollar question" in a recent earnings conference call.

The key to attracting big mortgage lenders, he said, will be getting geographic coverage of half the areas that comprise total loan volume in the U.S. Said more simply, once Zaio's database contains appraisals for the properties in half of all major U.S. cities, lenders will jump on board, he predicted. He expects that to happen late this year or early next, which means that observers of the company may look back on 2008 as a turning point - either positive or negative - for Zaio.

Lenders have already begun ordering pre-completed appraisals in Zaio's test markets, but a more-critical trial is expected to get underway this year, when Southern California, the company's first major market, goes live, zone owners said.

Appraisers eye new data-based revenue streams It seems Zaio's future could hold more revenue-generating potential than many industry observers realize. Many of the zone owners interviewed by Valuation Review spoke of Zaio as more of a data company than an appraisal firm. After all, the Zaio's backbone is its database, which the company plans to populate with reams of data about every house in the country.

Several zone owners spoke of the potential of new revenue streams from selling that data to customers who typically don't have anything to do with the appraisal industry. For example, home-improvement retailers like Home Depot or Lowe's might be interested in a mailing list of all the houses in a neighborhood constructed before 1950, since those homeowners would seem to have the greatest need for renovations, Wood said.

Additionally, when performing on-site appraisals, zone owners are instructed to hit a button on their personal digital assistants that records their exact location on a global positioning system (GPS). That GPS data may be attractive to a digital map company like MapQuest or Google Earth, said Mark Silverstein, president of BayOne Appraisal Services in Tampa, Fla. Silverstein's company owns 12 zones in the Tampa area.

Kevin Allin of Anderson Appraisal Services in San Diego identified yet another potential market for Zaiio's data: Wall Street firms or debt-ratings agencies that want to analyze the quality of loans packaged into a mortgage-backed security. The firms could compare the loan amounts by property to the appraised property values in Zaiio's system, gaining insight into the risk associated with the security, Allin said.

It isn't difficult to imagine untapped markets for Zaiio's data the company hasn't identified yet, and zone owners would be entitled to a cut of whatever proceeds the company gathers from the data it sells, Wood said.

"We have something to sell outside of appraisals that will have value to a lot of people," Wood said.

Following the technology

Among some zone owners there's the feeling that technology is changing the industry, and they'd be wise to jump on board or risk being left in its wake.

"Having to move towards a more efficient and effective production model is something that just became more and more evident to me as a business owner," said Greg Colton, president of Colton Appraisal Group in Clinton, Md., and owner of 12 zones. "Zaiio was a clear and obvious answer."

Others, including Wood, see Zaiio as a way to reclaim some of the market share that appraisers have lost to automatic valuation models (AVMs) and broker price opinions (BPOs).

Some zone owners said their work with Zaiio has forced them to study their markets in such detail that they've gained a depth of knowledge and level of expertise that they never would have otherwise achieved. They plan to use that detailed knowledge and data of their areas to market their companies.

"Without a doubt I've come to know my 12 zones better than I ever knew (the area) through the 15 years that I was appraising it before," Colton said. "You have to cover every street, every neighborhood, every nook and cranny of your market area."