

What is an Appraisal?

A home purchase is the largest, single investment most people will ever make. Whether it's a primary residence, a second vacation home or an investment, the purchase of real property is a complex financial transaction that requires multiple parties to pull it all off.

Most of the people involved are very familiar. The Realtor is the most common face of the transaction. The mortgage company provides the financial capital necessary to fund the transaction. The title company ensures that all aspects of the transaction are completed and that a clear title passes from the seller to the buyer.

So who makes sure the value of the property is in line with the amount being paid? There are too many people exposed in the real estate process to let such a transaction proceed without ensuring that the value of the property is commensurate with the amount being paid.

This is where the appraisal comes in. An appraisal is an unbiased estimate of what a buyer might expect to pay - or a seller receive - for a parcel of real estate, where both buyer and seller are informed parties. To be an informed party, most people turn to a licensed, certified, professional appraiser to provide them with the most accurate estimate of the true value of their property.

The Inspection

So what goes into a real estate appraisal? It all starts with the inspection. An appraiser's duty is to inspect the property being appraised to ascertain the true status of that property. He or she must actually see features, such as the number of bedrooms, bathrooms, the location, and so on, to ensure that they really exist and are in the condition a reasonable buyer would expect them to be. The inspection often includes a sketch of the property, ensuring the proper square footage and conveying the layout of the property. Most importantly, the appraiser looks for any obvious features - or defects - that would affect the value of the

When do you need an Appraisal?

Every year, countless people in the United States buy, sell or refinance their own slice of the American Dream. Most, if not all, of these transactions include a simple line item for an appraisal. It has become an understood and accepted part of a real estate transaction. "Let's bring in the expert and make sure we're not spending too much on this property."

But is this the only reason to get an appraisal? Are there other times when the services of a certified, licensed, independent real estate professional might come in handy?

Property Tax Challenges

It's a running joke that every one has a different perspective of what a house is worth. And it's the tax assessor that seems to always come in at the high end of the scale! Challenging the tax assessment has become an annual ritual in many parts of the country. Unfortunately, most people go into these challenges unarmed. They may pull some information from the internet to support their claims, but have no real basis other than: "It wasn't worth that much last year."

While it may not be economical to commission a full appraisals to lop a few hundred off your tax bill, often we can do a limited appraisal or neighborhood analysis for much less. These documents can carry a lot of weight when you appear before an appeals board.

PMI Removal

Private Mortgage Insurance or PMI is the supplemental insurance that many lenders ask home buyers to purchase when the amount being loaned is more than 80% of the value of the home. Very often, this additional payment is folded into the monthly mortgage payment and is quickly forgotten. This is unfortunate because PMI becomes unnecessary when the remaining balance of the loan - whether through market appreciation or principal pay-down dips below this 80% level. In fact, the United States Congress passed a law in 1998 (the Homeowners Protection Act of 1998) that requires lenders to remove the PMI payments

house. Once the site has been inspected, an appraiser uses two or three approaches to determining the value of real property: a cost approach, a sales comparison and, in the case of a rental property, an income approach.

Cost Approach

The cost approach is the easiest to understand. The appraiser uses information on local building costs, labor rates and other factors to determine how much it would cost to construct a property similar to the one being appraised. This value often sets the upper limit on what a property would sell for. Why would you pay more for an existing property if you could spend less and build a brand new home instead? While there may be mitigating factors, such as location and amenities, these are usually not reflected in the cost approach.

Sales Comparison

Instead, appraisers rely on the sales comparison approach to value these types of items. Appraisers get to know the neighborhoods in which they work. They understand the value of certain features to the residents of that area. They know the traffic patterns, the school zones, the busy thoroughways; and they use this information to determine which attributes of a property will make a difference in the value. Then, the appraiser researches recent sales in the vicinity and finds properties which are "comparable" to the subject being appraised. The sales prices of these properties are used as a basis to begin the sales comparison approach.

Using knowledge of the value of certain items such as square footage, extra bathrooms, hardwood floors, fireplaces or view lots (just to name a few), the appraiser adjusts the comparable properties to more accurately portray the subject property. For example, if the comparable property has a fireplace and the subject does not, the appraiser may deduct the value of a fireplace from the sales price of the comparable home. If the subject property has an extra half-bathroom and the comparable does not, the appraiser might add

when the loan-to-value ratio conditions have been met. It is not the lenders job to monitor when this happens prior to you paying down the loan to that point. As the market values increase, it happens sooner and can cost you money if you are unaware of the current market values. If there has been a significant increase in your area you may qualify for the reduction. A mortgage broker can usually give you a preliminary estimate.

The cost of the appraisal is very often recovered in just a few months of not paying the PMI.

Pre-Sales Decisions

Before someone decides to sell a home, there are several decisions to be made. First and foremost: "How much should it sell for?" But first there may be other equally important questions to ask: "Would it be better to paint the entire house first?" "Should I put in that third bathroom?" "Should I complete my kitchen remodel?" Many things which we do to our houses have an effect on their value. Unfortunately, not all of them have an equal effect.

While a kitchen remodel may improve the appeal of a home, it may not add nearly enough to the value to justify the expense.

Appraisers can step in and help make these decisions. Unlike a Realtor, an appraiser has no vested interest in what amount the house sells for. Our fee is based on our efforts, not a percentage of the sales price. So seeking a professional appraisal can often help homeowners make the best decisions on investing in their homes and setting a fair sales price.

Estate Planning, Liquidation Or Divorce

The loss of a loved one is a difficult time in life. Likewise, a divorce can be a particularly traumatic experience. Sadly, these events are

a certain amount to the comparable property.

Income Approach

In the case of income producing properties - rental houses for example - the appraiser may use a third approach to valuing the property. In this case, the amount of income the property produces is used to arrive at the current value of those revenues over the foreseeable future.

Reconciliation

Combining information from all approaches, the appraiser is then ready to stipulate an estimated market value for the subject property. It is important to note that while this amount is probably the best indication of what a property is worth, it may not be the final sales price. There are always mitigating factors such as seller motivation, urgency or "bidding wars" that may adjust the final price up or down. But the appraised value is often used as a guideline for lenders who don't want to loan a buyer more money than the property is actually worth. The bottom line is: we will help you get the most accurate property value, so you can make the most informed real estate decisions

often complicated by difficult decisions regarding the disposition of an estate. Unlike many wealthy individuals, the majority of Americans do not have dedicated estate planners or executors to handle these issues. Also, in most cases, a home or other real property makes up a disproportionate share of the total estate value.

Here too, we can help. Often the first step in fairly disposing of an estate is to understand its true value. Where property is involved, the appraiser can help determine the true value. At this point, equitable arrangements can more easily be arrived at among disputing parties. Everyone walks away knowing they've received a fair deal.

There are other uses for real estate appraisals. But you get the idea, if it involves YOUR money, be smart and get an expert opinion. In the long run, you'll be glad you did.