

What is an Appraisal?

An appraisal is a written estimate of a property's market value completed by an appraiser. The value is based upon a market analysis of recent sales prices for similar properties in the area, and the property's physical condition.

The appraisal is performed by an appraiser, an objective third party whose job is to give their professional opinion of the market value of a home. An appraisal is the appraiser's opinion of the property's value based on their knowledge and evaluation of the property. This opinion or estimate is developed using the three standard approaches to property valuation:

- The **Cost Approach** estimates what it would cost to replace or reproduce the improvements as of the date of the appraisal, with deductions for issues like physical deterioration. This is added to the land value to determine that value of the property.
- The **Comparison Approach** looks at properties of similar size, quality and location that have recently sold in order to derive a comparative value. Variations between the properties are factored into the valuation by adding or subtracting amounts to adjust for things like more bathrooms, a smaller lot, etc.
- The **Income Approach** is generally used for commercial properties, and is not typically relevant for residential property valuations. The income approach estimates the value of the property based on upon the net income the property produces.

Why is an Appraisal Required?

Lenders use the appraisal to determine the appropriate loan amount. Because home values can vary considerably, even in the same neighborhood, it's important for the lender to have an objective opinion of the value of a home before making a loan that will be secured by the property. A lender will not lend more than the value of the home, and the appraised value is used to determine common loan ratios that factor into the loan approval process, such as loan to value (LTV).

Who Performs the Appraisal?

An independent appraiser hired by the lender performs the appraisal of a property. Appraisers are trained to value properties, and they are licensed by each states through the Division of Commerce.

An appraiser must meet specific criteria in order to be licensed. The appraiser does not handle valuables, so they do not need to be bonded. However, most appraisers do carry liability insurance to cover accidental damage to the property that may occur during the course of the appraisal.

Who Picks the Appraiser?

The lender hires the appraiser, and the fee for the appraisal will be included in the borrower's closing costs, and outlined in the Good Faith Estimate. Generally, the lender has a relationship with a third-party firm that specializes in performing appraisals, allowing them to quickly assign a qualified appraiser to evaluate the property.

Who Does the Appraiser Work For?

The appraiser's client is the lender, not the borrower or seller. Typically, an appraiser works for an appraisal firm or they may be self-employed. Either way, they appraiser is not generally affiliated with the lending institution, and therefore they are an independent and objective professional.

You may wonder, "If I pay the appraisal fee, doesn't the appraiser work for me?" This is a common misconception. Even through the buyer pays the fee for the appraisal service, the appraiser works on behalf of lender, not the borrower or seller. The appraiser is not employed by the borrower, and is not influenced by the borrower or seller in preparing an opinion as to the value of the property.

Can a Seller Hire Their Own Appraiser?

A seller may wish to hire an appraiser to value their home before selling the property. However, the lender most likely will not accept this appraisal for the purposes of the loan approval, so another appraisal will need to be done by an appraiser the lender selects. The cost to the seller for this pre-sale appraisal will be about \$300-500.

How Long Does an Appraisal Take?

The physical inspection of a typical property does not take long. Most appraisals only take 10-15 minutes, unless the house is difficult to measure or has some unique features that require additional investigation by the appraiser. During the inspection the appraiser will take photos to document the condition of the property and any special features of the home.

After the initial property inspection, the appraiser may tour the neighborhood and identify other properties that are similar to yours. They may also search property records to locate “comps” or comparable properties that have recently sold. The appraiser takes pictures of these properties to include in the appraisal report.

The appraisal report uses a standard format, and takes about four hours of work to complete. You can expect the appraisal report to be completed and delivered to the lender within a day or two of the property inspection.

What Factors Affect the Appraised Value?

During the inspection, the appraiser measures the house from the outside to determine square footage. This external measurement is standard throughout the industry. Usually no interior measurements are required. The appraiser takes notes concerning the features of your house such as room layout, number of bedrooms, baths, etc. The appraiser also makes a determination of the general condition, appeal, and functional layout of your house. All of these items are taken into consideration in the appraisal report. Other items that may be considered are:

- General condition and age of the home
- Size of home and property
- Location of the home
- Features of the home (i.e., 3 bedrooms, 2 baths, etc.)
- Major structural improvements, such as additions and remodeled rooms
- Architectural features, such as skylights and fireplaces

Items that usually contribute very little to value are swimming pools, finished basements, landscaping, new roofs, new furnaces, etc. Concerns about property conditions that may require the home buyer to invest more in maintenance to sustain the property value, such as upkeep on a private road, may also be an issue.

How Can You Prepare Your Home for Appraisal?

The most important thing you can do to prepare your home for an appraisal is to make sure all the maintenance you can do is done before the appraiser arrives. This includes yard work and clutter removal, as well as any painting, new flooring or other improvements you plan to make.

Inform the appraiser of any upgrades and home improvements such as new windows, floors, the finished basement, etc. Keep the receipts and have them available if the appraiser asks to see them.

What Should I Tell the Appraiser about the Property?

You can help ensure an accurate appraisal by doing your homework and knowing what similar homes are selling for in the neighborhood. These prices should be current, not from six months or a year ago.

Let the appraiser know about similar homes and what they have sold for, as well as any unusual circumstances that would explain why a home may have sold for significantly more or less than yours.

You should also inform the appraiser about any hidden features or detriments to the property, such as:

- Right of way or other easements
- Structural damage or water leakage
- Is the property in a flood zone?

Do I Need to Walk Through the House with the Appraiser?

You may want to tour the property with the appraiser to answer any questions that may come up during the inspection. Since the improvements and features of the property are usually readily evident to the appraiser, it's not necessary point out each detail. However, if there is a feature of the property that is not readily evident, do mention it to the appraiser.

Does the Appraiser Perform a Home Inspection?

The appraiser is not a home inspector, engineer, plumber or electrician, so you should not expect them to provide estimates for repairs or other information related to the condition of the home. Seek the advice of a professional home inspector to determine the condition of the property and any required repairs to structural or mechanical features like roofing, air conditioning and plumbing.

What's My Property Worth?

The appraiser will not be able to provide the value of the property immediately after the inspection. The inspection is the first step the appraiser takes to determine the property's value. Additional work is required to arrive at an opinion on the value, and this information is provided directly to the lender in the form of an Appraisal Report.

Can I Get a Copy of the Appraisal Report?

If you are the borrower and the appraisal is used in granting credit you are entitled to a copy of the report. This copy can be obtained from the lending institution by written request. The report will have specific terms and limiting conditions posted. It is essential anyone viewing an appraisal report read these conditions.

What if the Value Isn't What I Expected?

In a rapidly changing market, buyers and sellers are often surprised when the appraised value is higher or lower than expected. A higher value will not have an impact on the loan approval process, but a lower value will if the value is lower than the actual sales price of the property. The lower appraised value is used to determine an acceptable loan amount, which is generally up to 80% of the appraiser's opinion of the home's value.

Options for dealing with a low appraisal include increasing the buyer's the down payment to make up the difference between the appraised value and the purchase price, or the seller can lower the purchase price.

You may also work with the lender to request an appraisal review or a second opinion if there is additional information such as recent comps that may have been overlooked. If the comps that were used are unlike the subject property due to differences in condition or improvements, or if the appraiser is not familiar with the type of home or neighborhood, additional information can be useful in obtaining an accurate appraisal.