

Consumer Guide to Real Estate Appraisals



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Much of the private, corporate and public wealth of the world consists of real estate. The purchase, sale, or transfer of any "real property" may be one of the largest transactions of your lifetime. The magnitude of this fundamental asset creates a need for informed appraisals to support decisions pertaining to the use and disposition of real estate and the rights inherent in ownership.

Appraisals for a loan are conducted by highly-trained professionals who are licensed or certified by a state regulatory agency that enforces the ***Uniform Standards of Professional Appraisal Practice*** (USPAP), to determine the value of a home fairly, objectively and without bias in the state where the property is located. In some states, referred to as mandatory states, appraisers are required to follow USPAP. When engaging appraisers in non-mandatory states it is important that consumers and the appraiser agree on the standards by which the appraisal will be prepared.

Throughout the valuation process, the appraiser analyzes and reconciles the collected data to arrive at conclusions regarding the final value opinion. In the final reconciliation, the appraiser considers all the available data and uses their knowledge, experience and professional judgment to arrive at a final opinion for the property.

An appraisal is an objective, supported opinion of the value of a piece of property, made by a person who has sufficient knowledge and experience to reliably develop an UNBIASED opinion of its value.

This process recognizes that every piece of real estate is unique. An appraisal helps to determine a property's market value - the likely sales price it would bring if offered in an open and competitive real estate market.

An appraisal can be key to protecting your interest in many financial dealings pertaining to real estate. When there is a question as to the value of your property, there is also a risk involved. Value oriented risks may include:

- *Selling a piece of property below market value*
- *Paying too much for property*
- *Being over or under insured*
- *Receiving a fair share in the division of property*
- *Paying too much property tax*

Reasons to Hire a Real Estate Appraiser

There are many reasons to obtain an appraisal. The most common reason is for a real estate or mortgage transaction, but there are some other very important reasons you may want or need to order an appraisal. Some of these are:

1. To establish the replacement cost for insurance.
2. To settle an estate. Taxing authorities often need real estate appraisals to establish the value of a property when a death occurs. Usually the survivors wish for a conservative value estimate which limits their tax liabilities as much as possible. However, it is vital that survivors get the most reliable valuation for property since beneficiaries usually decide to sell the property once the probate process is complete. **It can sometimes be difficult to sell a property for a higher value than was reported on the decedent's inheritance tax return.**
3. Division of assets to establish market value in case of divorce, dissolutions of partnerships, etc.
4. Reduce property taxes. Many people don't realize that they can be over charged for their property tax assessments. In many states, property taxes are calculated based on the fair market value of your home. If the value of your home listed on your property tax bill appears too high—if housing prices in your neighborhood or city have declined, for example—you may be able to appeal the assessment. An independent appraisal could help strengthen your case, which ultimately could lower your annual property tax. The assessment appeal process varies by state and local municipalities, so be sure to check whether your state or locality allows homeowners to submit their own appraisals when appealing property tax assessments.
5. Assess current value to get rid of obligation to buy property mortgage insurance. New homeowners are frequently required to obtain private mortgage insurance (PMI), but because of legislation passed by Congress in 1998, homeowners can cancel this coverage when their loan to value ratio reaches 80 percent. An appraiser can develop an opinion of the current value of the home which will assist the homeowner in deciding whether to ask the lender to drop the PMI.
6. To provide a negotiating tool when buying or selling real estate. While you can look at market trends for houses to generate a rough estimate of what you think the home should be worth, only a certified home appraisal will give you a number that you can be truly confident about to negotiate a purchase/sale price. Pre-sale appraisals are always recommended. Before anyone puts their house up for sale they should have it appraised to get a reliable opinion of the true market value. This could prevent any last-minute holdups because of problems found during the buyers' bank appraisal that might delay the sale or terminate the deal altogether.

Property Valuations and Estate Settlement Appraisals

A probate case requires the decedent's property to be appraised -- to determine the cash value of the property as of the date of the decedent's death. The probate court needs to know the total cash value of the estate, prior to distribution of the assets. Probate cases primarily depend on professional appraisals to determine the cash value for "non-cash" assets, such as real estate.



During probate or estate settlement proceedings, acquiring an appraisal is the furthest thought from your mind. It is important to get a property appraisal with an effective date and market value estimate matching the exact date of death. An accurate report showing the appraiser's opinion of value is required to support the methods the appraiser used to arrive at his conclusions. A report of this caliber may help substantiate your claim that the values within the report are well-founded and accurate.

While it may be easier to use the real estate assessment value as the market value at the date of death, a lower-than-appraised value reported on the Inheritance Tax Return could make it difficult for pricing your property at a higher value when you ultimately decide to sell the property. Since the Inheritance Tax Return is a public record, a smart buyer who views the return may only make an offer closer to the market value reported on the tax return. Therefore, if the assessed value doesn't match the appraised market value of the property, it can cause problems when trying to list the property for a higher amount when you try to sell it.

In a rapidly changing market, buyers and sellers are often surprised when the appraised value is higher or lower than expected. [Appraisers do not set the real estate market; they analyze what's happening in the market.](#) A professional, objective appraiser is trained, educated and has the experience to analyze your home, comparable homes that have sold in the area recently, adjust for time on the market, physical features, living area and dozens of other factors and provide a professional, reliable opinion of value.

Don't confuse a comparative market analysis, or CMA, with an appraisal. A **CMA** is a sales report prepared by a real estate professional that is based on data entered into the multiple listing service, or MLS. Real estate agents use CMAs to help their clients determine realistic asking and offering prices.

Appraisals are detailed reports that reflect an **unbiased** opinion of *fair market value* of the subject property, prepared by licensed appraisers that are certified by a state licensing board that requires 2000-3000 hours of experience and 150-300 hours of education. The appraiser has NO vested interest in the transaction.

Bottom Line: A CMA is for marketing purposes. An appraisal is an analytical conclusion.

APPRAISING A PROPERTY HAS, ON MANY OCCASIONS, ALLOWED TWO PARTIES TO COME BACK TO THE NEGOTIATING TABLE AND MUTUALLY AGREE TO BUY/SELL A PROPERTY BASED ON A PRICE THAT IS MORE SUITED TO THE CURRENT MARKET AND THE TRANSACTION WAS A BETTER FIT FOR ALL PARTIES INVOLVED.



How to Select a Real Estate Appraiser

- Select an appraiser who is based in your local market, is active and has all appropriate data.
- Choose a designated appraiser from the Appraisal Institute (AI). This designation separates them from appraisers that are only certified by the state.
- Let the appraiser know what you are using the appraisal for.
- Look for an appraiser who has experience in appraising properties similar to the property you want appraised.
- Always make sure an appraiser is licensed or certified in the state where you need an appraisal.
- Meet with your potential property appraiser before you engage in a working relationship.
- Review the service agreement that will tell you what their services will include, the time they expect it to take, and how they will be paid. It should also give the details of the report format they will provide for you.
- Look at the education of the appraiser. Some colleges offer Real Estate as a major.

All appraisers are not the same, so you should consider their experience and education along with the fee when making your final decision. While it is reasonable to ask what the turnaround time will be for completion, it is important to remember that appraisals that are rushed to be completed may not be as thorough as those that have had the necessary time invested in them to get the best results.

For more information, feel free to call (724)847-3211 or 888-EDCLINE or visit www.ECA1.com.

