

Understanding Appraisals

Appraisals are misunderstood by much of society. Some people think you can call a REALTOR® to come out to your house and “appraise” it. Others think that an appraisal is an absolute value for your home. Still others think an appraisal is a standardized assessment that will turn out the same regardless of who you hire as your appraiser. None of these thoughts are correct, and quite frankly, can be quite dangerous thinking. In an attempt to shed some light on this mystery, this article discusses the definition of an appraisal and the reasons someone may want to utilize one.

What is an Appraisal?

The purpose of an appraisal is, quite simply, to determine the fair market value for your home. For one reason or another, someone needs to know what their home would sell for (in theory) if it sold today. Within an appraisal itself, many different items will be highlighted, including but not limited to:

- Specific and detailed information about the property, including measurements, pictures, etc.
- Discussion of potential detriments to the property’s value, such as location next to train tracks or difficult access to the property
- Multiple comparable properties that have sold within a certain period of time and distance from the subject property
- Evaluation of the potential time on market before it sells (which seems pointless since the purpose is to determine possible sale price today)
- Discussion of the current state of the local real estate market conditions

Who is an Appraiser?

An appraiser is a licensed individual who must complete coursework and an apprenticeship (the amount of time varies from state to state) to become experienced in their profession and the local market. For instance, the state of Missouri requires 2500 hours spent under the apprenticeship of a certified appraiser and 120 hours of classroom learning, plus you must pass the test before you can become a certified residential appraiser yourself. As a home buyer or seller, the appraiser chosen for you or by you should be an unbiased 3rd party with no vested interest in the value of your property.

When is an Appraisal Used?

There are many instances when someone might want or need an appraisal. The most common reason is because the lender is requiring it before they will sign off on a loan. Essentially, the lender needs some kind of assurance that the price you are paying for the home is reasonable, just in case they have to sell it down the road. Remember that by lending you money to purchase the home, the bank is assuming a large amount of risk in the event that you are unable to make your payments and they have to take it back (or foreclose on the property). The lender looks at multiple items on the appraisal, such as potential time on the market and home value, before signing off on the loan.

Another instance in which an appraisal might be used is because the homeowner wants a professional to evaluate the value of their home for insurance purposes, often due to recent improvements. An unfortunate example of this occurred in the last year when someone purchased an older home for below market value and put quite a bit of time, money, and “sweat equity” into renovating it and restoring it to its previous glory. The home had been insured at its original value and the family was going to have it re-appraised in approximately two weeks, after the work was completed, so they could increase the amount of insurance coverage in the event a fire or other tragic event. Before they were able to have their home re-appraised, the home burned down unexpectedly, and they were left with quite a large loss. The money and time they put into the home was not recovered through their insurance claim because their insurance only covered what the home was appraised for at the time of purchase.

Other instances when appraisals might be used to reevaluate a home’s worth include divorce settlements, estate settlements, condemnation, tax purposes, and much more.

What an Appraisal is Not

An appraisal is not the same thing as a CMA or Competitive Market Analysis. Many REALTORS® do provide clients with CMA’s (which could go by many other monikers as well — such as property valuations or master market analysis) in order to give them an idea of their property’s current value based on the state of the market and comparable properties. A CMA is only the REALTOR’S® opinion and is not nearly as extensive as an appraisal. A CMA cannot be used as a substitute for an appraisal, and a REALTOR®, unless otherwise licensed, cannot provide you with a legal appraisal.

Also keep in mind that an appraisal is not an absolute thing. You could have 20 different appraisers come out to your home and all 20 of them could come up with a different value. In a town like Rolla, Missouri, it is especially difficult to get

an accurate appraisal because there are fewer comps to draw from, not to mention fewer comparable neighborhoods as well. The larger the city, the easier it is to come up with consistent appraisal values.

Appraisals can make or break a real estate transaction, which makes them extremely important. Beyond that, though, there are many other important uses for appraisals. Now that you understand the purposes of an appraisal and the reasons you might utilize one, you are better equipped as a future or current home owner.

Here is a sample appraisal courtesy of Smallwood Appraisal Company. [Click here](#) to download the sample appraisal in PDF format.