

Some Insights About Home Values From a Real Estate Appraiser



I was a part of a class recently for Real Estate professionals on the topic of Appraisals. We had an appraiser in attendance, and the appraiser's answers to some of the questions surprised us all.

Isn't the definition of market value "the price at which a seller is willing to sell and a buyer is willing buy?" If so, then why does it sometimes happen that a price is agreed upon by all parties, and then the appraisal value comes in low?

It turns out the answer is...IT DEPENDS!

Let me share a few of the questions and answers I heard during the class:

QUESTION: Why does the appraiser get a copy of the contract? It seems like values on a purchase transaction just come in right at the contract price. How is that even fair?

ANSWER: Having a target makes a difference. Knowing that the buyer and seller agreed to this price is very valuable information. It offers a good starting point. Does that mean the actual market value couldn't be higher or lower? Absolutely not. We look at market data and comparable sales. Marketing by the agent makes a difference. Read the "definition of market value" on an appraisal report sometime. There are a lot of factors that must be considered. (See DEFINITION OF MARKET VALUE below)

QUESTION: "How much value does a pool add to a home?"

ANSWER: "You tell me." In your experience as a realtor, how much more is a buyer willing to pay for a house that has a pool? Every case is different. In some neighborhoods, no one wants a pool, so it may actually hurt the chances of getting the home sold. Other neighborhoods, everyone wants a pool, so adding one can significantly increase the value and decrease the time on the market. Every case is a little bit different, and the value of a pool can vary dramatically by location and features.

QUESTION: "How much are foreclosures factored into market value?"

ANSWER: "It depends on market trends in the area." If foreclosures make up a major percentage of overall sales, then foreclosures play a major part in determining market value in that area. If foreclosures are limited, and there are good non-foreclosure comparables that clearly negate the effects of foreclosure sales, they may have no impact, or only minimal impact on values. Especially if it is readily apparent that the foreclosure properties are in sub-standard condition, sold under duress, or not offered on the open market.

QUESTION: "How does an appraiser look at values compared with how a realtor looks at values?"

ANSWER: "You as a realtor have an advantage." You work directly with buyers and sellers. You get to see first-hand what a

buyer considers a comparable sale. For example, if a buyer doesn't buy in this neighborhood, what alternate neighborhoods are they likely to consider? An appraiser can guess, but you actually experience those conversations with buyers, and may have some insights we may overlook. Don't be afraid to share these things with your appraisers!

QUESTION: "How much does a view add to the value?"

ANSWER: "The question to ask is: What will the market bear?" Are there buyers actively looking for views like the one offered by your property? Are they willing to pay more for an identical house that has a view vs. one that does not? In areas like San Diego, the view is very important, and buyers are very conscious of the type of view (ocean view, unobstructed ocean view, partial ocean view, etc). Views of the mountains in the foothills of Yuma may not command the same type of interest.

QUESTION: "How much do backyard upgrades / solar / energy efficient upgrades add to the value?"

ANSWER: "The question to ask, again, is: What will the market bear?" In Yuma, there is very little data that supports a solar energy system, even an owned system, adds any value to a property. There just have not been enough sales where we can compare 2 home sales and say definitively that the one with solar sold for a higher price. In other markets, there is far more data. There are fields in the MLS database for energy efficient upgrades, owned solar, HERS ratings, etc. Yuma may eventually get there, but the data just isn't there for recent sales.

QUESTION: "How much do market trends factor into appraisal values? If market values are going up, that means a house could sell for higher than any other one has in the past, so there won't be any comps yet at the higher value. How do you reconcile that? Can you factor in the market trends?"

ANSWER: "This is a tough one. Is the market moving enough to make a difference? We have to really dig into the data to be able to show this kind of trend. However, information provided by the listing agent can certainly make a difference in justifying higher values. For example, the fact that the house sold within 24 hours of coming on the market, and there were 6 offers, and it sold for more than the asking price, is definitely an indicator of the market value of that property."

The bottom line is **don't be afraid to communicate**. An appraiser must maintain their independence and objectivity. But if you are the listing agent, feel free to share the comps you used to justify your list price. You never know, one or more might be properties the appraiser would not have otherwise considered.

If you have any questions, or if there is anything else we can do for you, please feel free to reach out to the Jackson Team!

DEFINITION OF MARKET VALUE:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions* granted by anyone associated with the sale.

*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or

concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.