

A hand holding a pen over a clipboard with a checklist, with a house in the background.

Understanding Real Estate Appraisals

A real estate appraisal helps to establish a property's market value, which is the likely sales price it would bring if offered in an open and competitive real estate market.

Why are appraisals needed?

A property's value cannot be known without performing an in-depth evaluation by a trained real estate appraiser. In this way, houses are like art and antiques, as their value, too, is unknowable without an appraisal of their flaws and finer points. The monetary amount arrived at by a real estate appraisal can be used for the following purposes:

- ✓ **To Determine Real Estate Tax.** Local governments impose taxes on homeowners based on the valuations offered by appraisers;
- ✓ **To Determine Whether A Home Is Sufficient Collateral** for a loan to be issued, and...
- ✓ **To Give** a Seller or Real Estate Agent a better idea of what sale price to list the house.

An appraisal is not performed to assess the safety of a home, but the market value of the home and the cost to replace the home. The appraisers will make notations about obvious safety issues that affect the home's value, such as any visible foundation issues, an unstable deck, wood rot, or water damage, but homeowners should rely on Home Inspections, not appraisals, to help them determine the condition of their homes.

Real estate appraisers will take one or more of the following three approaches when estimating property value:

- ✓ **The Cost Approach** – in which the appraiser estimates how much it would cost to replace the building if it were destroyed. This approach is most helpful for new properties, where the construction costs are better known;

(Continued on the back)

- ✓ **The Sales Comparison Approach** – in which the appraiser estimates a property's value by comparing it to similar properties nearby that have recently sold; and
- ✓ **The Income Approach** – in which income-generating real estate is appraised based on the rent that it is expected to earn, as well as projected earned profit when the property is resold.

Appraisers determine which of these approaches to emphasize by considering the market for the property. For instance, small retail properties, which are often purchased by owner-users, are best appraised using the sales comparison approach, while office buildings, which are typically purchased by investors, are best appraised using the income approach. These distinctions are rarely so clear-cut, however, as a single-family home might require some amount of the income approach if it is surrounded by rental properties.

Once they have decided which perspectives are most appropriate, the appraiser will collect data, evaluate the neighborhood, verify legal descriptions of the property, note conditions and special features of the home, and perform other duties as they deem necessary to the house's appropriate valuation.

www.MTPmtgTexas.com



Julie Post

PRESIDENT • NMLS License # 145832 • TX License #71106

www.MTPmtgTexas.com

julie@MTPmtgTexas.com

ph 214-644-0610 | cell 214-695-6277

fax 214-736-3661

10185 Custer Rd., Suite 300 | Plano, TX 75025

