

Appraisal

- The purpose of an appraisal is to establish the fair market value of a property and provide data needed to support a sound underwriting decision.
- The appraisal is conducted by an Appraiser. This person should be objective and knowledgeable about appraisal techniques.
- The three appraisal methods are:
 1. The Direct Market Comparison Approach which estimates the market value of a property by comparing it to similar properties that have sold recently. This is our primary indicator of value. Adjustments are made to make the properties more comparable.

$$\begin{array}{rcccl} \text{Sales Price of} & & & & \text{Estimated Value} \\ \text{Comparable Property} & & \pm & \text{Adjustments} & = & \text{of Given Property} \end{array}$$

2. The Cost Approach which estimates market value by figuring the costs of constructing the property, subtracting any depreciation, and adding the result of the value of the lot.

$$\begin{array}{rcccl} \text{Cost of} & - & \text{Depreciation} & + & \text{Site} & = & \text{Property} \\ \text{Improvements} & & \text{on Improvements} & & \text{Value} & & \text{Value} \end{array}$$

3. The Income Approach which estimates the market value of a property in terms of its income potential.

The developer or owner reviews with the lender the current and potential value of the property, the income it will earn and the expenses that are anticipated to operate the property and pay real estate taxes. The income that is estimated to remain after operating expenses and taxes is the amount available to make mortgage payments.

What Affects a Home's Value?

How much value does a view add? The answer isn't clear-cut. It depends on the housing stock available, the price range of the property, the quality of the view, the other amenities of the home, and the profile of the typical homebuyer in the area.

For example, if view homes are readily available in the local marketplace, you'll probably pay less to get one than you will in a neighborhood where views are hard to find. When views are scarce, buyers usually pay more to get them.

The higher the price range, the more you're likely to pay for a view. In the \$100,000 price range, you might pay \$5,000 to \$10,000 extra for a view. In the \$500,000 price range, a view might add \$30,000 to \$40,000, or more, to the value of the property, depending on the view.

The San Francisco Bay Area is blessed with wonderful views. But, buyers usually pay more for unobstructed views of San Francisco or the Golden Gate Bridge than they do for views of the Bay that are filtered through the trees. As with any amenity, the quality of the view will effect how much a buyer will be willing to pay for it.



Homebuyers who want a view usually won't pay a premium price for a view home unless the other amenities of the property warrant the higher price. For instance, a one-bedroom, run-down shack with a panoramic view will have limited appeal, even to view buyers, because few homebuyers can make do with a one-bedroom shake.

Buyer profile also effects the value equation. Let's say all the view homes in an area are perched on the side of a hill and have no yards. If most buyers in the area are looking for suitable homes in which to raise children, the properties with views may not sell for a premium at all. Their lack of a yard may make them less desirable.

First Time Tip: While amenities usually add value, the lack of an amenity considered essential to most homebuyers in the area can affect value negatively. For example, according to the National Association of Home Builders, the lack of a garage can lower the value of a home by about 14.6 percent.

Here are some other value depreciators. For no second bathroom, deduct 18.5 percent. If neighborhood streets are in disrepair, take off 6.5 percent. Dock 14.5 percent if there are neglected houses nearby and 30.7 percent if there are abandoned buildings in the neighborhood.

Determining how much value any given amenity adds to a home is subjective and dependent on many different factors. For example, according to the National Association of Home Builders, the lack of central air lowers a property's value by 12.8 percent. However, in a very hot climate where you can't exist comfortably without air conditioning, that figure may be higher. But, in the Pacific Northwest where it rarely remains hot for long, the lack of central air may not reduce a property's value at all.

Property condition affects value, but more in some markets than in others. In a soft market, with declining home prices and lots of homes for sale, good property condition may be a prerequisite to selling at all. In a low inventory seller's market, where prices are rising, buyers are usually more willing to overlook deferred maintenance.

By far the most important factor affecting a home's value is its location. Property condition can be improved and many of a home's defects can be corrected. But, location is unalterable.

