



Question: Why do I need to have an appraisal of the house that I want to buy?

A: The purchase of a home is often the largest single investment a person typically makes. It would be reassuring to know that the price you are planning to pay for your next house is a fair price. Typically the selling price is set by the person(s) selling the house, often with the help of experts who understand the value of real estate in that particular market. The price may or not be based on good information.

Appraisers are skilled professionals who provide an unbiased estimate of what a buyer should expect to pay for a property. In Colorado there are four levels of licensure for appraisers. It is important that the person who will appraise the property you want to buy is qualified to do so.

A Registered Appraiser is a trainee learning under the supervision of a higher-level appraiser and is limited in what they can appraise. Licensed Appraisers can appraise many residential properties and some non-residential properties without supervision. A Certified Residential Appraiser may appraise all residential and some non-residential properties. The highest level of certification in Colorado is Certified General Appraiser. This person is qualified to appraise any property.

Appraisers use a variety of tools and resources to determine the value of a property. A site visit to the property is an essential first step in understanding the true condition of the property. On the site visit the appraiser will look at the house thoroughly to determine overall size and location as well as the key features, such as number of bedrooms and baths. The appraiser typically makes a drawing of the house and notes any problems or defects that could affect pricing.

With the site visit information in hand and a thorough knowledge of the local housing market, the appraiser then seeks to estimate a fair price for the house using one or more of the following approaches.

1. The Cost Approach involves calculating what it would cost to construct a similar house based on local building costs, labor, taxes and the like. This approach sets an upper limit on the value as you would not be likely to pay more for an existing home than it would cost to build you a new one just like it.

2. The Sales Comparison approach involves collecting information on recent sales of comparable properties in the same neighborhood. With this information in hand the appraiser then makes adjustments to the value of the home being appraised to take into account features the comparable properties have that the home being assessed does not have (or vice versa). For example, extra bedrooms or baths would increase the value over the comparable homes while no basement or garage might reduce the appraisal.

3. In the case of income producing properties (rentals) the appraiser may use the Income Approach, taking into account future earnings on the property to help set its market value.

The appraiser will take all of the information available and set an appraised value that he believes is reasonably accurate. A buyer may end up paying more or less than the appraised value depending upon the urgency to complete the sale, the motivations of both buyer and seller and the possibility of a “bidding war” for a very desirable property.

Buying a home may not be the only time that you will want to engage the services of an appraiser. You may need to establish the value of your existing home in order to buy insurance, settle an insurance claim, refinance a loan or to use the home as collateral on additional loans. Appraisals are also helpful if you want to challenge a property tax assessment, avoid having to pay mortgage insurance, or to settle an estate.

In all instances, be certain the appraiser is qualified at the appropriate level to deliver a reliable estimate of value.

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