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In Praise of Appraisals

By Barbara C. Neff

"What's it really worth?"

The crazy swings of the real estate market in recent years have many homeowners and prospective homeowners asking just that question these days. Although Web sites like Zillow.com claim to provide the answer, real estate consumers are finding that professional appraisers are the smarter, safer alternative. As Naperville appraiser Chip Wagner notes, "the small price of an independent appraisal may potentially save or gain thousands of dollars."

An appraiser gives consumers objective and impartial opinions on the value of real property.

"The appraisal is really trying to predict the market value," says Wagner, a third-generation appraiser. Appraisers usually are hired in the context of a mortgage or refinancing, where the lender wants assurance that the property is worth enough to secure the amount of the loan. But appraisals can come up in other situations, too.

"A prospective purchaser sometimes wants to know if the house is worth the money he's going to bid," says Paul Piekos, an appraiser in the Naperville area for 20 years. "And a prospective seller might get an appraisal so he knows the value before he puts it on the market."

Piekos increasingly is seeing that scenario with sellers who list their homes online without benefit of a real estate agent.

Realistic numbers

When refinancing to tap into equity or applying for a substantial mortgage, you might think that the higher the appraisal, the better. Think again.

A distorted figure for a refinancing can prolong market time when you later try to sell the home. Naperville real estate agent Scott Gerami says he often encounters sellers who earlier refinanced based on a drive-by appraisal. Such a superficial appraisal easily can produce an inaccurate value.

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"It's hard to overcome that with the seller when I suggest a list price," Gerami explains. "They put their homes on the market at the appraised price, and then the homes sit."

When appraised values for home sales ring in too high, the buyers can end up going "upside down" on their loan.

"They owe \$400,000, for example, but then their company is moving them to another part of the country, and [they discover] the house is only worth \$350,000 or \$375,000," Wagner says. A similar problem arises when homeowners have tapped out their equity.

An appraisal that comes in under the proposed purchase price also can cause difficulties.

"I've had it happen," Gerami says. "It created a lot of problems. To get the deal to close, the sellers had to reduce their price."

How it works

Reaching an accurate value generally requires several steps. The appraiser begins by visiting the property and noting significant features, paying special attention to those that potential buyers particularly value. The typical buyer is primarily concerned with location, size and local schools. Beyond that, people will pay for a remodeled kitchen and bath, Piekos says.

"They will pay more for a freshly decorated home vs. one with a dated interior," he says. Buyers also consider the size of the garage and whether a basement is finished.

Warner says the views from the property matter, too: "Does it view a park, or does it view a busy street?"

The appraiser researches the relevant market, as well, identifying sales trends for comparable homes. The appraiser then makes pricing adjustments based on differences between those homes and the subject home. At this point, appraisal becomes more of an art than a science.

"No two houses are the same, and no two markets are the same, so there's no exact adjustment," Wagner says. "It's based on the appraiser's expertise."

That's why hiring a qualified appraiser is so critical to obtaining an accurate value. While lenders will select the appraiser for mortgage transactions, buyers and sellers seeking appraisals should choose carefully. The State of Illinois licenses three different levels of appraisers who have passed a state exam, depending on their coursework and experience. In addition, look for certifications from a national appraisal organization. And Wagner advises consumers to ask their attorneys or real estate agents for referrals.

After all, he warns, "all appraisers are not equal."