



Appraisal
Institute®

*Professionals Providing
Real Estate Solutions*

Estimating Home Value

Appraisal Institute
550 W. Van Buren St.
Suite 1000
Chicago, Illinois 60607
T 312-335-4100
F 312-335-4400
www.appraisalinstitute.org



How can I find out what my house is worth?

As a homeowner, you may have reason to question the value of your home on various occasions. These may include planning to buy or sell a home, appealing your property tax assessment, seeking to eliminate payment of private mortgage insurance or undertaking a major home renovation project. Valuation consultants will tell you that your home may have different values for different purposes.

MARKET VALUE: For buying and selling, market value can indicate the most probable price at which a home should sell in a fair sale in a competitive market.

INSURABLE VALUE: The insurable value—the cost of replacing your property if it were destroyed or damaged—can be used to underwrite fire and hazard insurance.

ASSESSMENT VALUE: Real estate taxes are generally based on the assessed value of your home, as estimated by your local assessor; this value is usually based on market value.

When an Appraisal Is Needed

Buying or Selling a Home

If you're planning to sell your home, setting an appropriate listing price can help to speed the sale. An appraiser, using market data, arrives at an opinion of market value that can help you decide on a fair listing price. Similarly, when you're shopping for a new home, a professional appraisal can indicate if the listing prices of homes you're considering are in line with the actual sale prices of similar properties.

Transfer of ownership typically involves a mortgage, and an appraisal usually is required before a home loan is approved. Lending institutions may require an appraisal of property that will be used as security for a mortgage, and this opinion of value plays a key role in mortgage application approval and the amount of down payment required.

Canceling Private Mortgage Insurance

New homeowners are frequently required to obtain private mortgage insurance, but as a result of legislation passed by Congress in 1998, homeowners can cancel this coverage when their loan to value ratio reaches 80 percent. To take advantage of this option a homeowner generally must have a good payment history and satisfy the holder of the mortgage that the value of the property has not declined below its original value. An appraiser can develop an opinion of the current value of the home, which will assist the homeowner in deciding whether or not to ask the lender to drop mortgage insurance.

Relocating for a Job

Real estate appraisals are often needed by relocation firms that assist employers in the transfer of their

employees. Sometimes, the relocation firm offers to purchase an employee's home if the employee is unable to sell the home during a specified time period. An appraiser is called in to estimate the market value of the home; this estimate of value helps the relocation firm decide how much to pay for the property. The appraiser may be selected by the relocation firm, the employer or by the homeowner-employee, depending on the relocation firm's policy.

Appealing Your Tax Assessment

In most communities real estate taxes are based on an *ad valorem* ("according to value") assessment of your property's value. If you believe the assessed value is unfair, you may have the right to appeal the assessor's valuation. Many assessment appeals can be resolved with a telephone call or letter to your local assessor. If a dispute is carried beyond this point, however, you may want a professional appraiser to give you an independent opinion of value to bolster your appeal to the assessor.

Insuring Your Home

Although most reputable insurance brokers can tell you if your fire and hazard coverage is sufficient, there are properties that may require a closer examination—for example, older buildings, custom-built homes or properties with unusual features such as solar energy collectors. An appraiser can give an opinion of the insurable value of your home by using the cost approach.

Remodeling and Rehabbing

Many homeowners today are choosing to fix up rather than trade up: to remodel and enlarge a present home rather than move to another home. But don't count on receiving a dollar-for-dollar

return at resale time—improvements may not return their costs. Some highly personalized improvements can even handicap the sale of your home. If you're considering improving your home with the intention of increasing its resale value, an appraiser can help you decide which improvements make the most economic sense.

If you're undertaking a major rehabilitation project, a feasibility study can be very useful. The appraiser conducting the study analyzes the condition of the property and the cost of rehabilitation and prepares an estimate of the property's value after improvement (the improved value will affect the *ad valorem* real estate tax). In addition, the appraiser will examine the surrounding neighborhood in terms of growth, structure and change. The appraiser can also investigate whether your property qualifies for historic preservation benefits from the federal and local governments. All of the data, gathered and analyzed by the professional appraiser, can aid you in your decision to rehabilitate.

Other Decisions Requiring Appraisals

An experienced, professional appraiser can assist in many other real estate decisions. Appraisers often are asked to estimate "just compensation" in situations where the government takes private property for public use, such as for a road or public park. The law requires that owners of the property taken in this manner must be paid a fair price. Appraisers also can give an opinion of value of property for gift or inheritance taxes, lease rental schedules and other investment purposes.

The Appraisal Process

An appraiser needs to know the purpose of an appraisal to begin the process of valuation. The

appraiser will propose an appropriate fee based on the estimated work involved in the assignment. Fees vary according to the complexity of an assignment and appraiser's experience, special expertise and reputation. Professional appraisers do not structure their fees contingent on the final conclusion of value.

Approaches to Value

Appraisers generally use three basic methods to arrive at a conclusion of property value: the *sales comparison approach*, the *cost approach* and the *income capitalization approach*. Wherever appropriate, all three methods are used in an appraisal.

SALES COMPARISON APPROACH: The sales comparison approach is used to compare sales of similar properties, taking into account differences among properties that may affect value. The sales comparison approach is typically the most applicable method of valuing single-family houses, townhouses and condominiums.

COST APPROACH: The cost approach is based on the current cost of replacing or reproducing a property. After estimating the cost of building the structures on a property, and deducting an amount for depreciation, the appraiser adds the estimated value of the land and arrives at an indication of value. This method is particularly useful for estimating insurable value.

INCOME CAPITALIZATION APPROACH: The income capitalization approach is based on a property's potential rent. This method is obviously most useful for valuing income-producing properties, but it can be applied whenever rental figures from similar properties indicate what the potential rental income would be if your property was leased.

Generally, the appraiser inspects your property, collects specific data about it as well as comparable properties in the same market, and analyzes general information about the property market. Using one or more of the three methods of estimating value, the appraiser arrives at a final conclusion.

The appraiser's final opinion of value and supporting data are typically presented in a written appraisal report. Many single-family residential appraisals are reported on a standard form used by most lending institutions; some appraisals require detailed narrative reports supplemented with statistical data and photographs. Regardless of the report's format, the appraiser must be able to support the conclusions and explain the process clearly. Throughout the process, the appraiser uses professional judgment.

The Value of a Good Appraiser

Whatever the reason that calls for a value estimate of your home, you should engage the services of a designated member of the Appraisal Institute. These professionals have met stringent education, experience and ethics requirements that surpass many of those required for state licensure. Reflecting their unbiased and objective approach to real property appraisal and analysis, members of the Appraisal Institute are required to adhere to a strictly enforced Code of Professional Ethics and Standards of Professional Appraisal Practice. Appraisal Institute members may hold the prestigious MAI, SRPA and SRA designations.

How to Find a Member of the Appraisal Institute

It's easy to find a member of the Appraisal Institute. Simply go to www.appraisalinstitute.org and look for the "Find an Appraiser" option. You can search for designated members throughout the United States as well as abroad by name, city, county, state or metropolitan statistical area (MSA). You can also obtain the Appraisal Institute's *Directory of Members* on CD-ROM by calling 312-335-4100 or e-mailing info@appraisalinstitute.org. The Directory disk is available at no charge.

Appraisal Institute
550 W. Van Buren St.
Suite 1000
Chicago, Illinois 60607
T 312-335-4100
F 312-335-4400
www.appraisalinstitute.org

Today and throughout its 70-year history, the Appraisal Institute is the leading organization for professional real estate appraisers. Reflecting their unbiased and objective approach to real property appraisal and analysis, members of the Appraisal Institute are required to adhere to a strictly enforced Code of Professional Ethics and Standards of Professional Appraisal Practice. Appraisal Institute members may hold the prestigious MAI, SRPA and SRA designations.

The Appraisal Institute advocates equal opportunity and nondiscrimination in the appraisal profession and conducts its activities in accordance with applicable federal, state, and local laws.

Copyright © 2004 Appraisal Institute. An Illinois Not For Profit Corporation. All rights reserved.

This brochure is intended for informational purposes only. Nothing contained herein constitutes legal, financial or other professional advice. Transmission of these materials is not intended to create, and receipt does not constitute, any relationship of any kind between the Appraisal Institute and the recipient. With respect to your own factual situation, you should not act upon any information contained in these materials without consulting your own legal, financial or other professional advisor.