WHAT IS AN APPRAISAL?

An appraisal is the process of developing an opinion of value supported by market data.

When an appraiser produces an appraisal, the appraiser is obligated to follow methods that are recognized by the profession and by state and federal regulators.

This means that market data drives an appraiser's analyses and conclusions.

WHY GET AN APPRAISAL?

Appraisals are ordered for a variety of purposes including lending, taxes, estates, divorces, and many other reasons.

WHO IS THE APPRAISER'S CLIENT?

The client is the person or company who hires the appraiser, regardless of who ends up paying the appraiser. The appraiser has an obligation of confidentiality to the client.

In a lending appraisal, the bank or lender is the appraiser’s client. In other appraisals, such as tax, estate, divorce, or other private appraisals, the homeowner, attorney, or another party could be the appraiser’s client.

CAN I TALK TO THE APPRAISER?

Because the appraiser owes confidentiality to the client, the appraiser cannot discuss the conclusions and outcome of the appraisal with anyone other than the client. However, even if you are not the client, the appraiser can still discuss general aspects of the appraisal process and physical characteristics of the property with you.

In a lending assignment, for example, if you have questions about the final value conclusion but you are the not the client (e.g., if you are the borrower or agent), the appraiser could answer general questions for you but then will direct you to your loan officer to address other specific questions you have or concerns regarding the value.

PLEASE NOTE:

This information is not intended to be exhaustive. Please contact a local appraiser or the National Association of Appraisers with general appraisal questions. On the NAA website use the Appraiser Look-Up to assist in your search.

National Association of Appraisers
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NATIONAL ASSOCIATION OF APPRAISERS

naappraisers.org

info@naappraisers.org

(210) 570-4950

7113 San Pedro Ave., #508 San Antonio, TX 78216

WHAT IS MARKET VALUE?

There are many different types of values, including market value, liquidation value, fair market value, etc. For lending assignments, appraisers are required to solve for market value.

The definition of market value is established by federal regulation. In short, it asks: what will a typical buyer pay a typical seller for a property in the open market?

For market value, the appraiser must rely on market data and consider factors such as physical condition, location, and other factors buyers and sellers consider.

WHAT ARE SOME STEPS AN APPRAISER FOLLOWS?

- The appraiser gathers information on the relevant characteristics of the subject property, such as house size, special features, condition, materials, car storage, location, site size, and other factors that impact value. This process may or may not include a physical visit to the property.
- The appraiser may ask you information about your property, such as any special features, changes or repairs you made, rental history, or other details. You should feel free to give the appraiser any information and documentation you think is important.
- The appraiser will analyze market activity (sales, listings, market changes, etc.) and your property's characteristics and use within that market.
- The appraiser will perform one or more of the three main approaches to value.
- The appraiser's research, analyses, approaches to value and final conclusions rely on market data.

WHAT ARE THE APPROACHES TO VALUE?

The appraisal profession and state and federal regulators recognize three main approaches to value, meaning they are the valuation methods appraisers use to develop a market-supported value conclusion.

In the Sales Comparison Approach, the appraiser identifies and analyzes comparable sales similar to the subject property to reveal what value the market places on such a property. These can be thought of as "substitute" properties that help to demonstrate what buyers would pay for your property. Because no properties are identical, the appraiser may need to "adjust" the comparable sales. For illustration, if a comparable sale has a three-car garage compared to the subject's two-car garage, the appraiser will likely adjust the comparable sale downward to more closely reflect how the marketplace regards the subject's two-car garage.

In the Cost Approach, the appraiser combines the cost of the land and the cost to build the house. However, for houses that are not new, the appraiser must account for wear and tear (called depreciation) to reflect its current (not new) value. In addition, the appraiser will account for location and other factors.

In the Income Approach, the appraiser identifies rental rates that apply to the subject property, analyzes sales of similar rental properties, and then applies the market's rent rates and sales prices to calculate the subject's value in the marketplace.

All three of these main approaches to value require the appraiser to analyze market data, ensuring the conclusion is market-based.