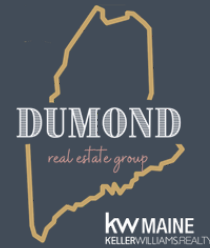


UNDERSTANDING

Appraisals



A real estate appraisal is a document that gives an estimate of a property's fair market value. An appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property. The appraisal is performed by an "appraiser" who is typically a state-licensed individual trained to render expert opinions concerning real estate property values. In a home appraisal, consideration is given to the property, its location, amenities as well as its physical conditions. The most common reason for ordering a real estate appraisal is to obtain a loan on a property. However, there are several other reasons why a property appraisal might be needed.

Determine a reasonable price when selling	Use as a negotiation tool (in real estate transactions)	Establish replacement cost (insurance purposes)
Contest high property taxes	Divorce or estate settlement	Protect your rights in an eminent domain case

HOW DOES AN APPRAISAL AFFECT THE SELLING PRICE OF REAL ESTATE?

The seller of the property is the person who sets the price of the property (especially residential property), and not an appraiser. This is because sellers normally do not order an appraisal when selling their homes. Sellers wish to obtain the highest selling price possible for their homes and do not want to be bound by the appraiser's assessment of their homes value. A real estate agent, normally assists the seller in setting the sale price.

The real estate agent performs a comparative market analysis (CMA). The appraisal laws in most states allow real estate agents to perform CMAs without an appraiser's license or certification. A CMA is a necessary part of the agent's preparation for a listing and consists of examining sales of properties in the area to arrive at a listing price. The reliability of the CMA depends upon the agent's experience and the characteristics of the property and the surrounding area. Typically, the agent will suggest a selling price to the seller based upon the analysis. However, the seller may not accept that price and choose to list the property for a higher price.

Appraisals



HOW IS THE VALUE OF AN APPRAISAL DETERMINED?

Real estate appraisers use three common methods when establishing the value of a property...

COST APPROACH

In this approach, the following formula is used to arrive at the property value: Value of vacant land + Cost to reconstruct the appraised building as new - accrued depreciation the building suffers in comparison to a new building.

SALES COMPARISON APPROACH

In this approach, the appraiser identifies 3-4 comparable properties in the same neighborhood which have recently been sold. Ideally, the properties are close in vicinity (within a 1/2-mile radius of the subject property) and have sold within the last six months. The appraiser then compares the sold properties to the subject property. The factors used in the comparison include square footage, number of bedrooms and bathrooms, property age, lot size, view, and property condition.

INCOME APPROACH

In this approach, the potential net income of the property is capitalized to arrive at a property value. This approach is suited to income-producing properties and is usually used in conjunction with other valuation methods. The process of converting a future income stream into a present value is known as capitalization.

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After thorough exercise of the three approaches, a final estimate or opinion of value is correlated. When evaluating single-family, owner-occupied properties, the sales comparison approach is most heavily weighted by an appraiser.

CONTACT US:



Alyssa Dumond
BROKER | REALTOR



50 Sewall Street, Portland, ME 04102



alyssadumond@kw.com



dumondgroup.kw.com



207.615.3515

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