

What is a Property Appraisal?

Explanation of the appraisal process as part of a closing condition of Escrow

Getting a property appraisal is a standard part of the mortgage and escrow process. Banks and mortgage companies will give a homeowner a loan based on the appraisal value of the property they want to buy. When you use a home for collateral for a loan, the lender wants an appraisal report to make sure the loan will be guaranteed by the value of the property.

An appraiser's report is more detailed than a comparative market analysis (CMA), which determines the market value of a property by comparing it to similar properties in the same area. Lenders want an appraiser's report and not a CMA before they will give a home loan.

Who are appraisers?

In any real estate transaction, an appraiser is an independent and objective third party who does not have any financial stake in the transaction apart from his fee for doing the appraisal. An appraiser should have no connection to the buyer or the seller of the property.

Appraisers are licensed by the state. They are knowledgeable about the real estate market. As part of the mortgage process, mortgage companies often have an appraiser on their staff or they may use an independent appraiser.

A homebuyer pays for the property appraisal when applying for a home loan. A homebuyer has a right to a copy of the appraisal report and usually receives a copy prior to the close of escrow. The escrow company requires a copy of the appraisal report or proof of completion in order to close escrow.

Appraisal Report

An appraisal report of what is called the "subject property" can be quite detailed. Some of the details included deal with the following aspects:

- Comparing the subject property with three similar properties in the area.
- Assessing the real estate market in the place where the subject property is located.
- Pointing out negative aspects affecting the market value of the subject property, like poor access to the property or an unstable foundation.
- Estimating how long it should take to sell the property.
- Describing in what kind of area the property is located.

There are two basic methods of appraisal used for residential properties. These are the sales comparison approach and the cost approach. In the sales comparison approach, the market value of the subject property is determined by the appraiser by comparing it to other properties of the same kind in the same geographical area that have been sold recently. These other properties are called "comparables" or "comps."

The cost approach is an evaluation of how much money it would cost to replace the property if it were to be destroyed. This approach is often used to evaluate the market value of new properties.

Information gathered from Realtor.com