



The **BAREFOOT** Realtor

Understanding Appraisals in Today's Market

I attended a seminar on appraisals which I found very enlightening, considering the downturn in the market prices. Understanding how a lender gauges the value of a property is everything. 4 basic principles are the foundation of analyzing an appraisal when qualifying for a residential mortgage loan.

1. Square Footage— within 20% of subject's
2. Style— ranch to ranch, 2 story to 2 story, condo to condo.
3. Distance- around urban 1/4 mi out, suburban 1/2 to 1 mi
4. Sale date- usually 6 mos. old or less.
5. There are 3 types of approaches used in appraising:
 - ◆ Cost approach- how much does it cost to re-build the property?
 - ◆ Income approach- based on rents in the area, what is the value of the property?
 - ◆ Sales comparison- based on similar properties which have sold, what is the value of the property? As of 2005, this approach is the only one Fannie Mae wants to see. They need to see 3 Sold comparables within the last 12 months.

Comparables on the same street are given the most weight. These comparables should remain within certain boundaries: same city, same school district: should not cross railroad tracks, or highways, or main roads. Foreclosures and Short Sales are included in comparables.

6. Then the process gets a little trickier. Understanding External obsolescence— negative factors affecting value, ie. lots of foreclosures in the neighborhood, nuclear power plant nearby. Functional obsolescence— condition which negatively affects how the property will be used, ie. 5 bedrooms, 1 bath; bedrooms upstairs with no bathroom. Deferred maintenance— condition in which the property has not been kept up to the standards of the neighborhood, ie. peeling paint, dead landscaping, broken windows.
7. Ultimately, if a buyer goes for a mortgage the bank will not loan them the money if the house does not appraise. The buyer must put more money down to off-set this, or the seller must come down on his price. Some times it falls apart .

Call **NICKE BAREFOOT,**



CITY 954-570-5725