

FOR WHAT IT'S WORTH

The Value of Appraisals, Assessments and Analysis

INTERVIEW WITH LORI BALES

State Licensed Real Estate Appraiser | Huron, South Dakota



INDEPENDENCE: Lori, as a real estate appraiser with over 20 years in the business, what is your experience with appraisals, comparative market analysis and tax assessments and how they affect the home buying/selling of someone's home?

L. BALES: In the world of real estate, appraisals, tax assessments and comparative market analysis are all designed to determine the "value" of a home. They have similarities, but also important differences, especially in their application. It is not uncommon for home owners and prospective buyers to struggle with making sense of these various instruments to decide how the result of each impacts the pricing of their home. This is especially true when the values do not match or are vastly different.

INDEPENDENCE: When someone is preparing to sell a home, they may wish to schedule a market analysis. What is this and who is qualified to conduct it?

L. BALES: A comparative market analysis (CMA) is a report, usually compiled by a real estate professional right before your house goes on the market. Many real estate brokers will provide a CMA free of charge with the understanding you intend to list the property with them or their agency.

INDEPENDENCE: What is a market analysis going to tell us?

L. BALES: A CMA is used to determine current market value so that you can choose the listing price where your home will sell quickly and for the highest amount possible. It gives you information about houses similar to yours (in size, amenities, and location) that are either on the market, have sold, or were listed but expired within a reasonably recent time frame. This provides you with the knowledge of what homes like yours are actually selling for, how long it took to sell them and what the sales prices were in relation to their list prices.

INDEPENDENCE: What are your thoughts on the use of a home inspection?

L. BALES: Before you close on the purchase of a home, or sometimes even before you make an offer, an independent home inspection by a professional inspector may be in your best interest. Many sellers are proactive and have an inspector look at the home for purposes of the sale, but as a buyer you may choose to pursue an independent inspection as well. In our area, you can expect an inspection to run between \$300-\$400 depending upon the size, age and type of home.

INDEPENDENCE: What if the home inspection does not go well?

L. BALES: Due to the implications it might have on the actual value of the house, you may decide to make the purchase of the home contingent on your approval of the inspector's report. In the event the report is negative, you can reduce your offer, ask the seller to pay for any repairs, or even back out of the contract altogether.

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A unique situation and one Mr. Reno had not encountered previously, but with Jeffry and Jessica's commitment, along with Chelsea Schulz, a very persistent Loan Originator, the team was able to bring a helpless situation to a celebrated reality. The day of the Morales–Cordero closing, everyone witnessed a level of gratitude from Jeffry and Jessica, which brought all involved to the point of tears. Jeffry, Jessica, Keilin, Janeliz and three little pet fish moved into their new home on January 6th, 2018. "I love my home and when I saw it for the first time, I just knew it was the right one", declared Jessica. Her favorite spot in the house is the view of her back yard from her dining room table because it makes her feel at peace. Jessica parted with this sentiment, "My goal is to raise our family here, grow old here and plant vegetables in my backyard."

And we hope you do.

"It was a lot of work and Hurricane Maria made the verifications we needed nearly impossible, but seeing how happy Jeffry and Jessica were about their new home, made me glad we were the ones they entrusted to get it done."

— Jared Reno



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INDEPENDENCE: How about the tax assessed value of a home, can you give us an overview of what it is and who is responsible for assigning it?

L. BALES: Tax assessment value is not the market value of a home. It's a value used for tax purposes. Tax assessed values are formulated by your local property tax authority of your county or municipality and used to bill you properly for your property taxes. The value is usually influenced by an average of several years of previous sales of homes similar to yours in the area. In most of our midwest markets, we find the tax assessment value to be lower than the actual market value of the home.

INDEPENDENCE: So, if a market analysis and a home inspection have been completed, is it still necessary to get an appraisal?

L. BALES: Yes, in fact, no credible financial institution will lend you money for a house without an appraisal. A home appraisal is an educated estimate as to how much your property is actually worth and it is conducted by a professional real estate appraiser. To the benefit of the buyer and their lender, the appraisal helps confirm the home is worth at least the selling price. This explains why the buyer is usually responsible to cover that cost of the appraisal at the time of the loan closing.

INDEPENDENCE: So to further clarify, how do home appraisals differ from home inspections?

L. BALES: The two often get confused, but they are not the same thing. Both an appraiser and inspector will walk through and around the house and all structures on the property, to take a good look (usually, the inspector comes first), but they are each at the house for different reasons. The appraiser observes and identifies the characteristics of the property that are relevant to the value of the home; the inspector is looking for any defects with the home that may cause safety issues, and/or financial grief later.

INDEPENDENCE: Lastly, do any of these values have an influence over the insured value of your home?

L. BALES: Actually, no. Your insurance company is primarily concerned with the replacement value of your home. If your home is damaged or destroyed, your insurer needs to know (based on current construction costs) the expected amount needed to repair or rebuild. This cost value is then used to assist them in determining the premium you pay for coverage