



## How to Get The Best Appraisal of Your Property

A Special Report From Real Estate Expert Bob Bruss

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Report #99303

Just about a year ago, I refinanced my home to take advantage of low interest rates. Actually, I started the process about two months earlier. Chase Manhattan Bank sent a mailer, which enticed me. But their “easy loan application process” turned out to be a nightmare. All the paperwork processing was done in Rochester, NY (where the home values are a fraction of what they are in California). Chase’s paper shufflers questioned just about everything. Finally, in September 1998 they sent their fee appraiser, Gil, to appraise my house.

I was ready for him! But it turned out he was a graduate of my real estate classes at the College of San Mateo many years ago. Thankfully, he earned an “A” so he liked me and we got along quite well. After he finished measuring the exterior of my house, and toured the interior, I handed him a list of my home’s features, along with a list of recent comparable home sales prices of which I was aware. We discussed my home’s probable market value. Surprisingly, his appraisal came out a little higher than I was expecting. Chase promptly sent me a copy of the appraisal. Needless to say, I was pleased! However, Chase continued to delay their long distance paperwork shuffling.

Meanwhile, I received a mailer from Norwest Mortgage offering me a discount “because you are such a good customer of Norwest Bank.” That means I have a small checking account with Norwest! Since Chase was taking so long, although I had been approved for the mortgage I wanted, I decided to see if I could do better at Norwest. They even hired the same appraiser (because they knew I was satisfied with his appraisal). He called back to ask to come over to photograph the interior of my house — but I refused! Since there’s nothing spectacular about my house, which adds market value, such as a grand staircase, I didn’t think there was any reason for this invasion of privacy. But my Norwest Mortgage was approved anyway within two days!

What got me to switch to Norwest was an interest rate, the same as Chase’s, plus a home equity credit line of 90% of the appraised value! Although I didn’t need that much money, I thought it would be smart to have it available. But imagine my shock when the home equity loan came through at only 75% loan-to-value! Needless to say, I was very upset at Norwest for making me their latest “bait and switch” victim. Of course, I complained “vigorously.”

Meanwhile, I heard a radio ad from Sanwa Bank (an insignificant foreign-owned bank in my area) for home equity loans at 7.75% fixed interest with no fees or other costs. That sounded good. So I applied. But, since I'm self-employed and own rental houses, they kept phoning back to ask more and more questions. Finally, I said "no more!" But I was approved anyway, "subject to the appraisal." Their appraiser came out a few days later. He had a real negative attitude, criticizing my small yard (I can't help it if my house is on the side of a hill with a great view!) and even a few little cracks in the stucco. I handled him exactly the same information I gave Gil, the first appraiser, about my home's features and the recent comparable nearby home sales prices. At first, Sanwa's appraiser didn't want to take the information, but I practically forced it into his hand. His appraisal came in exactly \$75,000 lower than the first appraisal, which was made about three weeks earlier. Meanwhile, home prices were appreciating in the neighborhood!

APPRAISAL IS AN ART, NOT A SCIENCE. As shown by this example, real estate appraisal is far from being an accurate science. Appraisal is a very subjective skill, dependent on the appraiser's ability and experience. I suspect that second appraiser had been told by Sanwa Bank to "low-ball" my appraisal so I would reject their offered home equity loan, which was much lower than I wanted. In an interesting quirk, meanwhile my complaint letter to Norwest got results and a few days later Norwest came through with the promised 90% home equity loan after all! I still haven't completely used it.

How can two licensed appraisers be \$75,000 apart appraising the same house? I would like to know. Sanwa Bank refused my request for a copy of the "bad appraisal." I question if it was ever prepared in writing. If I had paid for the appraisal, I would be entitled to a copy. However, since the bank paid for the appraisal, they claimed I was not entitled to a copy. That's not correct. But I didn't push the issue. Looking back, I found it strange that Sanwa's appraiser, when I asked for his business card, said he "forgot" them at home. By comparison, Chase's appraiser eagerly handed me his business card with his license number on it when I greeted him at my front door!

I tell this story because it shows how good some appraisers are and how bad other appraisers are. Despite treating both appraisers exactly the same, I got two radically different appraisals of the same house just a few weeks apart. Frankly, I should have filed a complaint about the second appraiser, but having nothing to gain and knowing it would be a waste of my time, I decided not to do so.

Appraisers understand they can make or break a mortgage transaction. Apparently, Sanwa's appraiser was either told to make a low appraisal of my house (sometimes called a "quick sale" valuation) or he was totally out of touch with the market values in my area. However, we can learn from this bad appraisal experience — that's why I share it. Frankly, I suspect he might have been a trainee appraiser or he could have been hired to do a cheap, minimal "drive-by" or "windshield" appraisal and that's why Sanwa Bank refused to give me a copy.

**WHAT IS AN APPRAISAL?** A real estate appraisal is an estimate of the market value of a property. By definition, that estimate is an opinion of the most likely price at which a property will change ownership, with neither the buyer nor seller being under pressure to buy or sell.

In reality, appraisals are much more difficult than that. If no sale has occurred (such as for an estate or divorce valuation or mortgage refinancing), the appraiser must use the best available information to estimate the probable sales price, or market value, of the property being appraised. For residences, the best available information is usually recent sales prices of nearby comparable houses or condominiums. For other properties, such as vacant land, apartment buildings, and commercial properties, more complicated appraisal procedures are used, such as square footage and income capitalization applications to the subject property.

The importance of the appraiser's experience cannot be overlooked. Most appraisers appraise residences. However, some specialize in apartment buildings and commercial properties. Others are experienced in land valuations. Be sure the appraiser you encounter is experienced appraising your type of property. If not, say "good-bye."

**NOT ALL REAL ESTATE "APPRAISERS" ARE LICENSED.** Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, a federal law, requires states to license appraisers for "federally related transactions." By late 1992, all states had appraisal license laws. While mentioning federal appraisal laws, I should note the 1991 Equal Credit Opportunity Act says borrowers can obtain a copy of their appraisal from the lender if they paid for the appraisal. Appraisers grudgingly accept these laws, but they don't like them. Previously, appraisers were unlicensed and unregulated in most states.

However, there are big loopholes for lower-priced residences, which do not require a licensed appraiser for mortgage loans. Also, a licensed appraiser can send a trainee appraiser to do the "grunt work" of measuring and photographing the house and the comparable nearby home sales, while the licensee prepares the appraisal back at the office without ever inspecting the house.

Recently, I attended a California Real Estate Educator's Conference in Los Angeles where one of the speakers was a representative of the California Office of Real Estate Appraisers. He was very competent. But he shared the problems his office has regulating appraisers, while keeping the number of appraisers as high as possible (because his office depends on those license fees to operate its budget — which was cut by \$500,000 this year).

There are four license categories: (1) Trainee License, (2) Residential License, (3) Certified Residential License, and (4) Certified General License. Ask your appraiser, which license he or she holds. Trainees must work under the supervision of a licensed appraiser. Residential licensees may appraise 1-to-4 unit residential properties up to \$1 million value and non-residential property up to \$250,000. Certified residential licensees can appraise all 1-to-4 unit residential property and non-residential property up to \$250,000. Certified general licensees can appraise all types of real estate. Be sure to check which type of license your appraiser holds.

**COMPUTERS ARE MAKING APPRAISERS ALMOST OBSOLETE.** About a month ago, I sold a rental house to a friend who wanted his sons who get some real estate experience. Before I sold, I checked recent comparable nearby home sales prices on the Internet. A good site for doing this is Brad Inman's [www.homegain.com](http://www.homegain.com). This website for home sellers is designed to match sellers with realty agents to list the property. Among the features is ONE free computer-generated appraisal of your residence. Putting the website to a test, I entered the rental property's street address. Within a few seconds, it came up with the home's square footage and the recent sales prices of nearby similar homes. Although those comparable home sales were many months old, and I knew of more recent nearby home sales, it was a great example of a "quickie" computerized home valuation. By the way, when I tried to also get an appraisal of my residence from [www.homegain.com](http://www.homegain.com), it refused! One appraisal per customer.

Many lenders, especially Freddie Mac and Fannie Mae, are experimenting with similar computerized appraisals of homes in neighborhoods of similar residences. To illustrate, I recall about 10 years ago when Greg Baramore, then President of General Electric Mortgage Insurance Corporation, told me GE was experimenting with computerized home appraisals. He predicted appraisers would be replaced by computerized appraisals. Although not yet perfected, computerized appraisals are becoming highly accurate.

**EXAMPLE:** About two years ago, I received a letter from Bank One offering me a Visa credit card secured by a second mortgage on a rental house I owned at the time. Their computer knew the balance of my first mortgage and how much the house was worth (within about \$10,000 of its actual value). The primary reason I didn't accept their offer was I didn't want to tie up that house with a second mortgage for an 18% interest rate Visa credit card with a \$100,000 limit! But their offer shows how far computerized appraisals have come — who needs an appraiser, except for unique one-of-a-kind homes?

**HOW HOME APPRAISERS GET BUSINESS.** Real estate appraisal is a very tough business. It is extremely competitive and price sensitive, especially since appraisers work for lenders, not homeowner borrowers. The big nationwide mortgage lenders often contact the national appraisal firms who then hire local appraisers on a fee basis. To illustrate, the local appraiser Chase Manhattan Bank in Rochester, NY hired to appraise my California house belongs to an appraisal group. When Chase needed an appraiser to appraise my house, Chase contacted the appraisal group, which then contacted my appraiser “Gil.”

Another way appraisers are hired by mortgage lenders, especially smaller lenders such as regional or local lenders, is to get on an “approved list.” These appraisers make contacts with dozens of lenders, hoping to be called when that lender needs an appraiser in a specific area. Sometimes, appraisers tell lenders they are familiar with large areas, such as one or several counties. The truth is no appraiser can be familiar with huge areas.

**EXAMPLE:** Several years ago I sold a house on a lease-option in South San Francisco to my tenant “Danny.” The S&L lender where Danny applied for a mortgage sent an appraiser from San Jose, about 40 miles away. There is no way that appraiser could possibly be familiar with the South San Francisco real estate market. As a result, the appraisal was far below the sales price (which was right at market value). But Danny has an advantage — he is Samoan! I sent an irate, but polite, letter via Federal Express (that’s the best way to get attention) to the S&L president, asking if this was an example of racial discrimination. I still remember receiving the phone call at 9:30 PM from Roger Gordon, President of San Francisco Federal S&L. He was working late at night. So was I. He was very cordial and promised to have the appraisal reviewed immediately. Within a few days, the new appraisal came in at exactly the sales price! Danny and his family are still enjoying their home today with that excellent ARM mortgage, thanks to my protest of a bad appraisal by an out-of-area appraiser who was not familiar with the neighborhood.

**THE THREE BASIC APPROACHES TO APPRAISING A PROPERTY.** There are three basic “approaches” or methods to determine the appraised market value of a property:

1 —**REPLACEMENT COST APPROACH.** This simple appraisal method involves multiplying the square footage of the residence structure by the current construction cost for comparable quality to arrive at the replacement cost of the building. The land value, based on cost per square foot, is then added to arrive at the property’s total market value.

2—INCOME APPROACH. Rental properties, such as apartment buildings and shopping centers, are usually appraised on the basis of their rental income. The net income, minus a vacancy estimate, is capitalized (based on local capitalization rates for recent sales of similar income properties) to determine the estimated market value of the subject property. This method is usually not appropriate for single-family houses unless the neighborhood is mostly occupied by tenants rather than owner-occupants. Even when a house is used as a rental, the income approach is usually not the most accurate method for arriving at its market value estimate.

3—COMPARABLE SALES PRICE APPROACH. When appraising houses and condominiums, the comparable sales price method is the most important. This technique considers recent sales prices within the last six months of comparable or competitive nearby houses or condos. It then applies those sale (NOT asking) prices to the home being appraised. The replacement cost and income approaches are used only as crosschecks when estimating the market value of houses and condos.

The result is the appraised value of a residence usually depends on recent sales prices of similar neighborhood homes. However, the pros and cons of each house recently sold must be compared to the advantages and disadvantages of the house being appraised. The resulting valuation depends on the appraiser's subjective opinions; often based on sales prices of homes the appraiser has never seen inside (except perhaps for the exterior).

Since method #3 is relied on almost 100% by residence appraisers, the experience of the appraiser is critical. Appraisers must add or subtract value, often thousands of dollars, for the pros and cons of each residence used in the appraisal (at least three comparable home sales, sometimes more). This is the critical part of the process where the appraiser can make or break the appraisal.

**HOW TO GET THE BEST POSSIBLE APPRAISAL OF YOUR HOME.** As in any other profession, there are good and bad appraisers (as my example at the beginning of this newsletter shows). To maximize your chances of obtaining the best possible appraisal of your home's true market value, here are the five key steps to take:

**1— GET YOUR HOME INTO ITS BEST POSSIBLE CONDITION.**

Although appraisers are not awarding the "Good Housekeeping Seal of Approval" to homeowners, they cannot help but evaluate the physical appearance of the residence. Be sure the home looks its best. Cleaning, repairing, and painting add market value. The yard and interior should also appear at their "model home" best.

Expect your appraiser to take photographs of the exterior of your home, front and back. The appraiser is also instructed to take “street scene” photographs. In addition, many lenders ask their appraisers to take interior photos. As explained earlier, I feel this is an invasion of privacy to take photos of an occupied residence (unless it has special features which add to its market value). As I discovered, the absence of interior photos had nothing to do with whether or not I got the mortgage requested.

2 — ACCOMPANY THE APPRAISER & ASK FOR A BUSINESS CARD. You or your real estate agent should be present for the appraisal. Ask for the appraiser’s business card; it should include the appraiser’s license number. Although some lower-priced homes can be appraised by unlicensed appraisers, chances of a bad appraisal greatly increase if the appraiser hasn’t passed the license exam.

Having dealt with dozens of appraisers over my real estate investment career, I’ve found the appraisers who didn’t have a business card usually have something to hide. Would you do business with an attorney, physician, real estate agent, dentist, or other professional who wouldn’t give you their business card? I hope not.

3 — HAND THE APPRAISER A LIST OF THE HOME’S FEATURES. Since appraisers often inspect as many as five or six homes a day, they can’t possibly remember the features of each residence. Exterior photos help. But those homes often become a blur to a busy appraiser. That’s why it is critical to hand your appraiser a list of your home’s special features, including improvements you added since purchase, to help assure a fair appraisal. Beware of appraisers who refuse to accept your list of special features and improvements.

It won’t do any harm to include with your list of home features your estimate of the home’s market value (or the sale price if you are purchasing the residence). Smart appraisers understand that if their appraisal is far off the sales price, or the owner’s estimate of market value, they’ll have unhappy clients and the lender might never hire them again. However, honest appraisers won’t over-value a home, so don’t expect miracles.

Although only one appraiser ever admitted to me that a lender told him to “low ball” an appraisal, I suspect many lenders tell their fee appraisers to appraise low — it’s called a “quick sale value.” If the lender doesn’t want to make the loan, such as when the property is in a bad neighborhood, the lender can easily justify a loan “decline” on the basis of a low appraisal.

#### 4 — GIVE YOUR APPRAISER A LIST OF RECENT, NEARBY HOME SALES PRICES.

Smart appraisers welcome all the information they can get on recent, comparable, nearby home sales within the past six months. If you can make your appraiser's job easier, chances are you will obtain a fair appraisal at market value. However, if the appraiser has difficulty finding recent neighborhood sales information, or doesn't select the right comparables, you will probably get an inaccurate appraisal.

EXAMPLE: My friend and successful RE/MAX agent Larry Emerson of Colorado Springs tells me "I practically do the appraisal for the appraiser." That's why Larry's homebuyers usually have no trouble obtaining the mortgages they need. When Larry lived in California, he was my favorite realty agent, having sold several of my rental houses. I recall one house he sold at a price, which was above the "going price" on that street. After Larry found a buyer, I was worried the house wouldn't appraise for the sales price. But his careful analysis showed the appraiser why the house was worth the sales price and the buyer had no trouble getting the needed mortgage.

Beware of any appraiser who refuses to accept your neatly prepared list of nearby home sales prices — he or she has probably been instructed by the lender to "low ball" your home appraisal and the appraiser doesn't want to be confused by the true facts.

However, be sure your information is accurate — the appraiser is obligated to double-check your details. To illustrate, if you don't know the number of bedrooms in a nearby comparable home sale, don't say it is a three-bedroom house if you're not sure. But the more facts you can provide in writing to the appraiser, the better your chances of a fair appraisal.

5 — INSIST THE LENDER GIVE YOU A COPY OF THE APPRAISAL. If you are the homebuyer, or you are a homeowner who is refinancing, insist your lender agree in advance to promptly provide you with a copy of the appraisal. When the borrower pays for the appraisal, the borrower is automatically entitled to an appraisal copy from the lender. Appraisers will refuse to give the borrower an appraisal copy, insisting the lender (not the borrower) is the client. That's nonsense! But arguing with the appraiser isn't the way to get a fair appraisal.

After you receive the appraisal, study it. Question any wrong results based on the use of recent nearby home sales, which are not truly comparable to your residence. Equally important, perhaps the appraiser wrongly added or subtracted value for the pros and cons of the comparable homes, as compared to yours.

If you disagree with the appraisal results, protest immediately! Insist the lender have a review appraisal made, or request a second appraisal (at the lender's expense). Emphasize specific errors, not just your opinions. If the appraiser refuses to correct factual errors, such as incorrect square footage of your home, report the matter to your state real estate appraisal license administrator for possible discipline.

**IN THE NEAR FUTURE, EXPECT HOME SELLERS TO OBTAIN AN ONLINE APPRAISAL WHEN LISTING THEIR HOMES FOR SALE.** Appraisers are hurting for business. It's either feast or famine for them. Their latest gimmick to stimulate business is to encourage home sellers to obtain a professional appraisal at the time of listing their homes for sale.

In the past, home sellers have relied on realty agents who prepared CMAs to show sellers the market value of their homes. Now appraisers want a profitable piece of that action. The Appraisal Institute, a voluntary organization of about 20,000 licensed appraisers, is about to launch its website in early 2000 called [www.OLA.com](http://www.OLA.com) (OLA stands for online appraisal).

This website will be available to both home sellers and home buyers, as well as homeowners who want to know the market value of their residences. This website won't be free, but it could be worthwhile for sellers, buyers, and homeowners who use it. The Internet should add to the reliability of appraisals because such appraisals will be fully available for critics to "second guess" the appraisers.

**CONCLUSION:** Real estate appraisal is a highly subjective, inexact skill, which depends on the appraiser's experience and ability. But appraisals are necessary for mortgage lending, home sales valuations, and other purposes. Obtaining a fair appraisal requires work by the home seller, buyer, realty agents, and others involved by providing the appraiser with as much written factual information as possible.

If you feel the appraiser did not accurately appraise the property, after reviewing the appraisal, don't hesitate to complain to the appraiser and the lender. Be extremely polite because appraisers can become extremely defensive when criticized. However, if the appraiser refuses to correct their appraisal, don't hesitate to (a) insist on a refund of any appraisal fee you paid and (b) file a complaint about the appraiser to your state appraisal license officials.

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