

APPRAISALS

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Anticipating selling or buying real estate? An appraiser is about to become an important part of your life – maybe it would be good to know a little more about them and their practices.

Real estate appraisals serve many purposes and take many forms. Appraisal is a profession unto itself with an army of specialists that serve many different needs. Many in the business would say it is more of an “art” than a “science” though all would agree that mathematics is at the heart of any appraisal. This article will attempt to provide an overview of the business with a focus on the mechanisms and processes involved in residential real estate appraisal.

Education, Qualifications and Licensing

Maryland law provides that all appraisals of Maryland real property must be completed by an appraiser who is licensed or certified by the State of Maryland. For more detailed information about the State Board of Appraisal: <http://www.dllr.state.md.us/license/reahi/>.

License Categories

Licensed Real Estate Appraiser: May provide appraisal services in federally related (e.g. FHA, VA) transactions with:

1. non-complex one to four unit residential properties with a transaction value less than \$1,000,000;
2. complex one to four unit residential properties having a transaction value of less than \$250,000;
3. commercial properties having a transaction value of less than \$250,000

Certified Residential Real Estate Appraiser: May provide appraisal services in federally related transactions with:

1. one to four unit residential properties without regard to value or complexity; and,
2. commercial properties having a transaction value of less than \$250,000

Certified General Real Estate Appraiser: May provide appraisal services in federally related transactions with all types of residential or commercial real property without regard to value, or complexity.

Appraiser Trainee: Appraiser Trainee must work under the supervision of a supervising certified appraiser License Qualifications.

Each license category requires the applicant to meet the following educational requirements to be eligible to take the Real Estate Appraisers examination:

Licensed Real Estate Appraiser: Applicant must have completed 150 hours of courses approved by the Commission and compiled at least 2,000 hours of appraisal work experience over a period of at least two calendar years (24 months).

Certified Residential Real Estate Appraiser: Applicant must have completed 200 hours of courses approved by the Commission and hold an associate's degree or higher, or in lieu of an associate's degree, 21 semester credit hours in specific courses prescribed by the Commission and compiled at least 2,500 hours of appraisal work over a period of at least two calendar years (24 months).

Certified General Real Estate Appraiser: Applicant must have completed 300 hours of courses approved by the Commission and hold a bachelor's degree or higher, or in lieu of a bachelor's degree, 30 semester credit hours in specific courses prescribed by the Commission and compiled a minimum of 3,000 hours of appraisal work over a period of at least (30 months), at least 1,500 hours of which in non-residential real property appraisal work.

Appraiser Trainee: Applicant must have completed 75 tested hours of Commission- approved real estate appraisal courses of which 15 hours shall be in the subject of the Uniform Standards of Professional Appraisal Practice.

Additional detail about these requirements and the profession may be found at www.appraisalfoundation.org. Additional ongoing continuing education requirements must be kept current throughout the career of an appraiser.

This qualification process is certainly much more rigorous than is required for becoming a licensed real estate agent. This is just the type of apprentice and achievement program that ought to exist for real estate sales.

Interestingly, a number of appraisers also maintain a real estate sales license which also requires initial education and testing and an ongoing requirement for 24 hours of continuing education biannually.

Governing Laws, Rules, and Policies

The Arizona Revised Statutes, Chapter 36, State Board of Appraisal is the law along with the Arizona Administrative Code, Title 4, Chapter 46. Additionally, Arizona has mandated that appraisals be accomplished in accordance with nationally recognized consensus standards of practice established by The Appraisal Foundation in their publication, Uniform Standards of Professional Appraisal Practice (USPAP) which is continually updated and revised.

When to Appraise?

The seller of residential property may want to consider a formal appraisal just prior to listing the property for sale. It is certainly not necessary or required, but it can be a good way to independently establish the value of the property. That is not to say that a qualified real estate agent would not be able to provide a reasonably good estimate of current value based on recent comparable sales and market trends, the appraiser obviously is more skilled and perhaps more likely to be objective in their analysis. If you

really don't have any idea what the property is worth – perhaps you are an absentee owner and aren't familiar with current market values and trends in that location, this precautionary step may keep you from selling the property for too little.

Refinancing can trigger an appraisal depending on the circumstances and monies involved. Any time a lender is involved there is likely going to be a requirement for an official appraisal of the property.

And naturally, any time a new loan for the purchase of real estate is being processed the lender will order an appraisal be done to ensure that the purchase price is adequately supported by a professional opinion of value. The lender will normally be the one to choose the appraiser and the appraiser is working for the lender – not the principals in the real estate transaction. Though usually the party seeking the financing is going to be responsible for the cost of the appraisal, other agreements might be negotiated. For example, especially in a hot sellers' market when property values are increasing rapidly, a savvy buyer may request that the seller of the property prepay the cost of the appraisal. Or, the seller may be asked to prepay for the appraisal with reimbursement by the buyer at closing.

Both approaches protect the buyers' interest and prevent them from paying for an appraisal that does not support the purchase price.

Something that is done very infrequently but might be considered by a property owner who has been in the property for a very long time and is concerned about carrying enough property and casualty (homeowner's) insurance is to have an appraisal done just to verify current value.

Another possible reason to consider having an appraisal done is if property taxes seem to be based on an assessed value that is too high. It may be possible to pay for the appraisal many times over with the savings realized by a successful challenge to your property tax assessment.

Types of Appraisals

A full blown appraisal is a comprehensive process that draws upon the education and experience of the appraiser and incorporates the latest information about comparable property values, market trends and other factors.

Appraisers are taught to estimate value by following three recognized approaches:

Sales Comparison Approach – Compares similar, recently sold properties, the Income Approach – estimates what a prudent investor would pay for the property based on the income the property is capable of producing, and the Cost Approach – which estimates the cost to replace or reproduce the property being appraised.

Through consideration of results of the analysis conducted, the appraiser then develops a final estimate or opinion of value.

Cost of Appraisal

Charges do vary somewhat from company to company and depending on the specific services provided, however, generally speaking a typical residential property appraisal normally costs somewhere between \$300 and \$500.

DISCLAIMER

John P. Hale is a licensed real estate agent in Maryland and Pennsylvania. He is affiliated with Coldwell Banker Residential Brokerage in Westminster, Maryland. John has been licensed since 2000 and also practiced in Tucson, Arizona for many years. Mr. Hale holds the following designations and certifications awarded by the National Association of REALTORS® (NAR) and other authorized institutions: ABR-Accredited Buyers Representative, AHWD-At Home With Diversity, CNE-Certified Negotiation Expert, CRMS-Certified Risk Management Specialist, CRS-Certified Residential Specialist, CTA-Certified Tourism Ambassador, e-PRO-Online Real Estate Practice, GRI-Graduate of Realtor Institute, MRE-Master of Real Estate, MREP-Mortgage Real Estate Professional, and MRP-Military Relocation Professional.

Please note that this article was written by John to provide objective information and to also reflect his opinion of good practice at the time of its' writing for the general benefit of those considering sale or purchase of real estate. It is not intended as definitive legal advice and you should not act upon it as such without seeking independent legal and financial counsel. Frequent changes in the law and standards of practice may cause this information to become outdated and no longer applicable or incorrect.