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# The Importance of Home Appraisals

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**For informational purposes only. Always consult with a licensed mortgage professional before proceeding with any real estate transaction.**

What is the value of a home? Buyers and sellers may find that a home is worth significantly less than what was expected based on a new home appraisal.

While a few intrepid buyers may choose not to get a home appraisal, it is generally useful for all parties involved in the [home buying process](#).

Home appraisals are a critical service often performed during the home buying process. It can help a potential buyer know of major issues of a home or be used to assess its value. What should a homebuyer realize about a home appraisal?

## What Is a Home Appraisal?

**A home appraisal serves an objective opinion of the value of a home and is often a contingency when closing on a home. It comes into play with purchase and sale transactions and refinance transactions.**

Used to determine that a contract price for a home is appropriate, it helps homeowners not borrow more than they should for a property. The home is assessed considering factors such as the condition and features of a home, as well as its location.

Those who will be financing the purchase of a home with a lender are generally required to have a home appraisal performed on a property. The home appraisal protects lenders when it comes to recouping money lent to a borrower should a borrower default. Cash buyers may be able to buy a home without a home appraisal, although it is a risky move.

As an initial step in the [closing process](#), an appraisal is also a tool for potential buyers. A low appraisal can give a buyer the means to ask for a lower price from the seller. However, a seller may also want to get another appraisal performed when they feel that the first was inaccurate.

## Who Pays for an Appraisal?

Although a home appraisal benefits lenders and buyers, the borrower will be responsible for paying for the appraisal. This is not an inexpensive service and may run several hundred dollars. An appraisal that comes in significantly below the contract price may cause delays in the closing process.

The majority of appraisals do come in at or around the contract price, allowing the closing process to proceed. Some may seek a second appraisal to get the value needed to proceed with a home purchase or sale.

## How Is Value Determined?

There are multiple factors which need to be considered. They include recent comps, current market trends, amenities, square footage, number of bathrooms and bedrooms, and the condition of the interior and exterior of the home. Needed repairs can decrease the value of a home. An appraisal is a visual inspection and while thorough, may not uncover every defect. The appraiser uses a report, offers their analysis and makes a conclusion based on observations.

There are some factors that a seller has little power to influence. The local market and recent comps can influence the assessed evaluation and an owner of a well maintained home can see its perceived value fluctuate in a changing market. A home's value may also be negatively impacted by numerous short sales and foreclosures in the area.

One approach to combat a low appraisal is to provide evidence that a home is in better condition than the distressed homes. A seller may also choose to put off selling their home until the market improves in the hope of getting higher offer prices from potential buyers.