

An Article of Interest

Real estate appraiser “central” to mortgage process (Part 2)

Owners who get past the financing hurdle and go on to build an unusual house may encounter an appraiser at resale, this time brought in by a broker who realizes from the get-go that no one will pay what the owners are asking. The broker hopes that an appraiser’s objective evaluation will help them “get real.” Mann said she periodically gets calls from brokers who say, “I need you to be the bad cop and the good cop and get objective. The buyers know you are not getting a commission, so talk about the house, warts and all.”

Mann went on to say that the sellers are not always happy with her assessment. In one case, a couple had spent a fortune converting their attic into an observatory, spending \$30,000 just to move the copper dome that housed the telescope into place. “They were mad that I gave the observatory so little value, but most buyers are not interested,” Mann said.

Sometimes the reason for a lower than expected resale price is not an unusual feature, but unusual taste. Karen Williams, an appraiser in Raleigh, N.C., recalled the unhappy seller of a house in a subdivision of \$500,000 to \$800,000 houses who was forced to reduce his price by 35 percent. The house was fine, but the owner had selected a blue galvanized metal roof to match the wild blue yonder for his traditionally styled house and “everybody hated it,” she said.

Clearly, these owners could have avoided a substantial financial loss at resale if they had sought advice before they proceeded with their project. Some appraisers are beginning to do just that, work with architects and lenders to advise owners of their potential risk when a new home project is still in the planning stage.

Alan Hummel, a residential appraiser in Des Moines, Iowa, cited by example an owner who wanted to build a \$3.2 million Frank Lloyd Wright-type house on the Iowa prairie. In a market where the median house price is \$97,000, that is an enormous investment for a house with limited appeal, Hummel said. The architect, builder and lender invited Hummel to apprise the owner of this fact. By the end of the reality-check discussion, the owner was ready to move forward, comfortable with the architect’s fee, the contractor’s price and the near certainty that on resale he would only realize about 60 percent of his cost.

On a more conventional project, Hummel worked with an architect and a couple who wanted a six-bedroom house for their large family. This is unusual for Des Moines, and Hummel helped them devise an “exit strategy” for resale, positioning the walls so that one of the bedrooms could easily be converted into a master suite sitting area and another could be a master suite walk-in closet.

Segueing from the unusual home buyer to the more typical one who is purchasing a house from a production home builder, what advice do appraisers offer? The builder has a dizzying array of upgrades; do any of them help with resale? The answer is yes. The specifics depend on whether you are at the low, middle or high end of the market, but the overriding principle on choosing upgrades is the same, strike for the middle and don’t over or under improve, compared to the other houses in the subdivision. As Williams succinctly put it, “you’re best off to be typical or less of the average of a neighborhood.”

Though it’s easy to focus exclusively on your house, you need to pay attention to what the other buyers in your subdivision are getting because their houses will be your main competition when you sell. If you opt for few upgrades and a Plain Jane approach, your wallflower house won’t be as appealing as the one across the street with the to-die-for kitchen. You won’t sell yours for as much and you may have it on the market longer.

On the other hand, if you get the kitchen and more of the builder’s other upgrade goodies than other buyers did, you will also suffer disappointment at resale. You’ll get more money but not that much more, because, as Williams said, “Buyers will only pay so much for a house that is wildly above average for a given neighborhood.”

Where is that invisible line between not enough and too much? The best way to determine its location is to walk around the subdivision, look at the other houses and talk with people who are already living there, several appraisers said. You should also ask the builder’s sales agent, who would certainly know which upgrades were the most popular.

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