



# The Truth About Appraisals

By ANTHONY MARGULEAS  
Special to the Palisadian Post

Have you ever wondered how appraisals always seem to come in at just about the right price? I have found after 11 years of owning a mortgage and real estate company that there can be up to a 20 percent margin on an appraisal.

On a \$2-million property, for example, an appraiser could estimate its worth to be anywhere between \$1.6 million and \$2.4 million—an \$800,000 differential! That's the kind of thing I see happening most often when the appraiser is not local and unfortunately not familiar enough with the area. I've seen appraisers use Huntington comparables for Alphabet streets, where the lots and the houses are generally smaller.

This problem is exacerbated whenever a person buying in the Palisades chooses a mortgage broker who is out of the area as well. The mortgage broker looks in a directory of appraisers and says, "Calabasas looks like it's close to the Palisades, let's call this appraiser."

Property appraisals are usually done when purchasing a home or refinancing. The most common appraisal method is the "sales comparison approach." Appraisers usually look at three to five comparable properties—culled from the Multiple Listing Service (MLS) and Public Tax Records—in helping them decide how much a property is worth.

Appraisers don't actually go into each of the comparable properties; they just take a photo of the exteri-

or of the house and check the MLS, which usually gives basic statistics such as the size of the house and how many bedrooms and baths there are. They aren't to know if a comp really has "incredible views from the backyard" or a "remodeled kitchen" since most often they have never been inside the property. While the MLS may indicate the bathrooms have been upgraded, the question is when. Last year? Twenty years ago? It makes a big difference in the price. While each of the comparables being used may all be on the same size lot, how much of the lot is usable? The backyard may be all hillside.

Another concern is the way cost comparisons are done. It is inaccurate to compare a 3,000-sq.-ft. home on a 10,000-sq.-ft. lot to a 3,000-sq.-ft. lot on a half-acre (22,000-sq.-ft.) lot unless proper adjustments are given for the land. Land in the Palisades currently ranges from \$75 to \$250 a foot depending on the location.

There is also the question of appreciation. Appraisers usually only pull comparables from the past three to six months. But if the market has been going up 2.5 percent per month and they're looking at a property that sold four months ago, that's a 10 percent increase. On a \$2-million property that \$200,000 increase in value is not usually taken fully into account.

In addition, there are concerns about how appraisals are done when properties are being refinanced. On a refi the owner, who generally wants to do a "cash out" and lower the interest rate, can borrow up to 80 percent of the

appraised value. How do most appraisers determine the value of a property on a refinance? The mortgage broker tells them they need a certain value and the appraiser works backwards from there to try and bring the property in for the required amount.

And what happens in the rare case where a property doesn't appraise? Then the borrower may have to make up the difference. If they're putting 10 percent down on a \$1 million property, and the appraisal comes in at \$900,000, the borrower may have to come up with an additional \$100,000. My advice to homeowners who find themselves in this situation is to check to see if the best comps were used.

Double-check the calculations of the floor plan and square footage measurements. I occasionally see mistakes in this area—the house is either smaller or larger than indicated on the appraiser's sketches.

Perhaps the best way to really know the value of a home is to ask a local real estate agent who is very familiar with your neighborhood. He or she should know the cost per square foot and the condition of the other comparables, as well as any amenities that might affect the value of your property, such as a pool, tennis court, or an amazing ocean view.

In the last year appraisals have been pushed over the limit by the real estate industry. If comparables realistically indicate that a property is worth \$2 million, and someone just paid \$2.5 million for it, how much pressure do you think there is on the appraiser to

justify the price? If there are a dozen comparables to choose from an appraiser will likely pick the ones that best serve their purpose to satisfy the needs of the lender, the mortgage broker or the borrower. My immediate suggestion is more oversight by the Appraisers Institute.

A borrower, after all, is putting trust in the whole system, from the mortgage broker, lender, real estate agent to the appraiser to ensure they are not overpaying for the property.

*Palisadian Anthony Marguleas is the owner of A.M. Realty and Amalfi Mortgage on Sunset.*