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Appraisal Insights for the Real Estate Professional



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## Value in New Construction Areas

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An all too frequent occurrence when appraising a recently built home (i.e. 2-3 years), is that the data available does not support the homeowner's estimate of value and sometimes even the original sales price. The reasoning is three-fold.

First of all, the life cycle of a new construction area as it pertains to the subject. One of the foremost tools used by an appraiser, or a potential homebuyer, is the principle of substitution. Simply put: "Can I get something similar and new for equal or less money?" In the case of an area that is still constructing new homes, it is possible for that answer to be "yes". There are instances where a builder may offer special discounts toward the end of construction in order to close out a subdivision. Therefore, a person may be able to purchase a newly constructed home, with all of their choices and amenities, for less than the estimate of value of the 2-3 year old more "lived-in" home. Further, if the subdivision is still fairly new and the turnover rate isn't very high, there may be little viable data available.

Secondly, homeowners often have an idea of the general appreciation their city or metro area may be experiencing and apply that knowledge with too broad a stroke. A situation such as this can be especially frustrating for lenders who do business in multiple markets both within and outside of each state. Not all homes appreciate at the same rate. This is true on the micro level as well. There may be homes in the same subdivision offering different returns on the initial investment. In some instances a simple choice can be pointed to as the reason. Is this the only home in the neighborhood with or without a basement? How many garage stalls are expected? Is this a predominantly one story area and the subject is one of the few two story homes? And so on.

Third, we need to look at the possibility of over improvement. Appraisers often see instances where the homeowner builds a new home and upgrades the flooring, light fixtures, adds significant landscaping, and in one instance, new shingles because they wanted a different color! At this point we need to remember that cost does not necessarily equal value and spending money on "improvements" or upgrades may not increase the value of their home equal to the cost, or at all.

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## Frequently Asked Questions

### **Q: *What should I do to increase the value of my home?***

**A:** The best rule of thumb is to know your neighborhood. Learn what the common factors and expected amenities are in your neighborhood and simply make sure your home "measures-up". Remember, there is a point of diminishing return where more money invested will not equal a greater return.

## Mortgage Rates As of May 26, 2005

30 Year Fixed: **5.65%**

15 Year Fixed: **5.21%**

1- Year ARM: **4.21%**

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