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Appraisal Insights for the Real Estate Professional



December 9th, 2004

## Appraising New Construction

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There are two purposes for a new construction appraisal: new home purchase and a construction loan.

A **new home purchase** simply means that the borrower is buying the home directly from the developer. Financing is based on the completed structure. Typically, when completing an appraisal for a new home purchase, the construction process has already begun. The appraiser obtains property data from the developer or real estate agent on the exact specifications or upgrades the home will feature. A final inspection or Satisfactory Completion Certificate is ordered once the property is complete. The purpose is to verify that the construction reflects the original plans.

A **construction loan** provides financing for the actual construction expense of a new home. The appraisal is completed before ground is broken and is based on the blueprints and specifications provided by the borrower. The borrower typically acts as the general contractor. The lender may require the appraiser to perform draw inspections throughout the construction process. This way the owner can pay subcontractors throughout the process.

In both cases, the appraiser is completing a hypothetical appraisal. The appraisal is made “subject to completion per plans and specifications.” The first step in completing a new construction appraisal is to determine land value. The land value is considered to be the “as is” value of the site as vacant.

## Frequently Asked Questions

### Q: What is a draw inspection?

A: A draw inspection is ordered when the contractor requires payment for services rendered. The appraiser will inspect the property to determine the status or level of completion of the property. The lender will often provide the form to be utilized by the appraiser.

If you have a question you'd like to ask, please email [ForsytheInfo@ForsytheAppraisals.com](mailto:ForsytheInfo@ForsytheAppraisals.com)

## Mortgage Rates As of December 9th

30 Year Fixed: **5.71%**

15 Year Fixed: **5.14%**

1- year ARM: **4.15%**

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