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Appraisal Insights for the Real Estate Professional



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Are Different Styled Homes Comparable?

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A homeowner will often let a lender know that a nearby home, with less square footage, sold recently. Unfortunately, when dealing with different styles of homes, all square footage is not created equal.

In a perfect world, ranch style dwellings would never be compared with anything other than other ranch style dwellings, split-levels would only be compared to other split-levels; two stories would only be compared to other two stories, and so on. However, due to a lack of sales in an area, or at least a lack of sales of similar styled homes, it is sometimes necessary to compare different style homes.

On a per square footage basis, a ranch style dwelling costs more to build than a two story with the same overall square footage. On a 2000 square foot 2 story, a 1000 square foot roof is needed, while a 2000 square foot ranch needs a 2000 square foot roof. This also holds true for foundation areas; a larger foundation is required for ranch style homes. Further, typical buyers often prefer single level living. These factors are addressed in the Style/Appeal section of the appraisal grid.

Aesthetic differences aside, a split level and a ranch style dwelling are considered fairly comparable. A tri-level is quite comparable to a 4-level, with the differences in lower level area easily reflected in the report. Some appraisers would argue a two story with a partial basement is similar to a 4-level where 3 levels are above grade.

So, while it is always best to compare only same style homes, it is possible to utilize different style comparables effectively. It is vital that the variables between styles are taken into account. A thorough narrative must be included in the report to inform the reader as to why the differing styles were used.

Frequently Asked Questions

Q: Underwriters sometimes request 4th or even 5th comparables. Why aren't additional comps always included in an appraisal?

A: The industry standard is still 3 comparable sales. Since these 3 comparables should be the most similar and truly comparable to the subject available at the time of the appraisal, by definition any additional comparables would be less meaningful in determining market value. The appraiser always has the option of adding more comparables to further support the value. In cases of unusual properties and higher end homes, additional comparables are necessary. In the majority of properties, appraisers and underwriters agree that the standard 3 comparables (and a cost approach, depending on the form) are enough to adequately support an estimate of value.

Mortgage Rates As of November 4th

30 Year Fixed: **5.70%**

15 Year Fixed: **5.08%**

1- year ARM: **4.00%**

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