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Conservative Appraisals Beg the Question: How Can Home Values Ever Rise?

Recently I sold a Golden town-home (my own listing) for full price — \$295,000. I felt it was a fair price for a particularly nice listing, and the buyer seemed to be pleased, too. However, the appraisal came in at \$272,000. Because there was an 80% mortgage, the seller was forced to lower the price or lose the sale.

In another transaction, I was representing a buyer in the purchase of a “fix and flip” home in Northglenn. I couldn’t believe the quality of the upgrades which were put into this home, but I managed to negotiate a purchase price of \$9,000 less than asking price on behalf of my buyer — a concession that probably wiped out most of the profit for the seller.

The house had been so over-improved, however, that there

were no comparables that the appraiser could use to justify the contract price. The difference was about \$10,000, and the seller simply wasn’t willing to lose that much on his project. Because it was a 96.5% FHA loan, my buyer couldn’t pay over the appraised price, so the deal died. The buyer loved the house but couldn’t buy it, and the seller will now have to wait for another contract that probably won’t appraise either!

This kind of scenario is more and more common nowadays, because over-appraisals were identified as a factor in the mortgage fraud which contributed to the national housing crash.

A few weeks ago [I wrote about how the appraisal industry is changing and not for the better](#). Now I ask the following question: if appraisers can only value a house

based on previous sales, and if sellers in most instances cannot demand that a buyer pay more than a home’s appraised value, how will we ever see more than a very slow increase in values?

Just this week a prospective seller, disappointed that his desired selling price was not supported by the comps, asked me, “How about waiting for summer, when prices will rise?” That may have been a good strategy in the past, but this summer’s sales will be appraised based strictly on this winter’s sales. With the way appraisals are being done now, the only direction the house market can go is down — or level at best.

I don’t have an answer for this. The critical review given by lenders to each appraisal is perfectly understandable. But it doesn’t bode well for homeowners who’d like to see their home’s value rise over time. (I have posted [additional comments on this topic online at www.JimSmithColumns.com](#).)

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By **JIM SMITH, Realtor®**

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Golden Tri-Level on Hill Ready to Show

Do you seek a home that’s within walking distance of multiple hiking trails, downtown Golden and the School of Mines? This home is a few blocks from downtown Golden on “Cemetery Hill” with unobstructed views of Golden, the Table Mountains and the foothills. The video tour on the website shows off the view from its two decks as well as the inside features. It has three bedrooms and the laundry on the upper level, and a large open family room with fireplace on the lower level which can be partitioned to create a fourth bedroom with private bathroom. A unique home in a unique location!



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