

Real estate appraisal

Real estate appraisal - is that the real one?

Real estate appraisal or property valuation is the process of determining the value of the property on the basis of the highest and the best use of real property (which basically translates into determining the fair market value of the property). The person who performs this real estate appraisal exercise is called the real estate appraiser or property valuation surveyor. The value as determined by real estate appraisal is the fair market value. The real estate appraisal is done using various methods and the real estate appraisal values the property as different for different purposes e.g. the real estate appraisal might assign 2 different values to the same property (Improved value and vacant value) and again the same/similar property might be assigned different values in a residential zone and a commercial zone. However, the value assigned as a result of real estate appraisal might not be the value that a real estate investor would consider when evaluating the property for investment. In fact, a real estate investor might completely ignore the value that comes out of real estate appraisal process.

A good real estate investor would evaluate the property on the basis of the developments going on in the region. So real estate appraisal as done by a real estate investor would come up with the value that the real estate investor can get out of the property by buying it at a low price and selling it at a much higher price (as in the present). Similarly, real estate investor could do his own real estate appraisal for the expected value of the property in, say 2 years time or in 5 years time. Again, a real estate investor might conduct his real estate appraisal based on what value he/she can create by investing some amount of money in the property i.e. a real estate investor might decide on buying a dirty/scary kind of property (which no one likes) and get some minor repairs, painting etc done in order to increase the value of the property (the value that the real estate investor would get by selling it in the market). So, here the meaning of real estate appraisal changes completely (and can be very different from the value that real estate appraiser would come out with if the real estate appraiser conducted a real estate appraisal exercise on the property).

A real estate investor will generally base his investment decision on this real estate appraisal that he does by himself (or gets done through someone). So, can we then term real estate appraisal as a really real 'real estate appraisal'?