

Determining the fair value of your property

The market value of your property can be determined by means of a real estate appraisal. The market value is the sales price that the property would most likely bring if it were offered for sale in an open and competitive real estate market. Having your property appraised is necessary to avoid the risk of it being underpriced or even overpriced. The appraisal is based on a variety of factors.

How an appraisal is done

When available, comparison – taking into consideration current market value – is the easiest way to have a clear idea of how much a piece of property is worth. It works for plots of land as much as it does for apartments, shops, warehouses, or buildings. Real estate experts say that they base their estimate on recent transactions concluded in the same area. Although this is the most widely used method of appraisal, it's not always possible as no two buildings have exactly the same features. There is also the rule of supply and demand. A second approach to valuation is the investment method. To obtain for the investor a return in the form of a specified net income, an appraiser may adopt a simple mathematical formula. For example, an investor who requires an annual return to 15 percent on his capital may consider putting \$ 300,000 into a shop. To meet his requirements, the net income should be \$ 45,000 (15 percent of \$ 300,000). The appraiser factors in the likelihood of receiving this rent when valuing the piece of property.

The Residual Approach to Appraisal

Another method of valuation is the residual approach, which is also based on a simple equation: the sale price of a completed building equal to the cost of development plus a profit allowance. However, this method may not be as straightforward as it seems. To appraise the value of a plot of land, the appraiser gives an expert estimate of the value of the project that will be built on the plot; the appraiser then estimates the construction costs. The difference between the two figures is the residual for purchasing the land. Another approach is the business profit method. For example, if the owner of a service station decides to move or open another service station, and these service stations have the same traffic, the same number of gasoline pumps, etc..., then similar sales should generate similar profiles. The appraisal price-to the buyer-of the new site is derived from this profit figure. Lastly, there is the cost-of-replacement approach. Where a piece of land has been dedicated for a specific purpose, such as a town hall, church, school, or police station, the cost of providing the equivalent structure or service at a new location, should it become necessary to move, must be figured into the appraisal price. When available, statistics and known costs are used in any appraisal process; otherwise, it is based on market assessments and appraiser's assumptions.

The Real Estate Appraiser

A real estate appraiser is a sworn expert, or 'khabeer muhallaf' appointed by a Ministry of Justice decree, who works on assignments allotted by a judge. This term-'khabeer muhallaf' – involves much more than pure real estate valuation. Courts often require the services and technical expertise of a

sworn expert to help them reach appropriate and informed decisions when ruling in real estate cases. The job of sworn experts is not only to put a price on property but also to explain to the court the process that led to their conclusions. At the same time, sworn experts are free to market their services to the public.

What the appraiser does

An appraiser's first task is to study the assignment and collect the necessary information about the piece of property in question. The expert must obtain the property's real estate certificate or 'ifadah akarieh' and a document about its urban planning and exploitation status, 'irtifaq wa takhteet'. The next step is to visit the site, examine the location, the size of the land, and the project. The appraiser also examines adjacent locations and collects other information about the piece of property and its neighborhood from the municipality or the mukhtar. The expert must prepare a field report and, based on that report, a subsequent final report. The concluding report must include a preface that contains the objective of the assignment, a main section with all the collected and analyzed data, and a conclusion that sets forth the recommendation and estimates based on that analysis.

Paying for the appraisal

The judge who requests the services of an appraiser defines in the ruling a lump sum for the expert's services. This fee ranges usually between \$ 150 and \$ 2,000 depending on an estimate of the amount of work and number of hours involved. Developers usually pay a lump sum based on the expert's experience and the difficulty of the assignment. For example, some real estate consultants charge a minimum of \$ 2,500, or 0.25 percent of the amount of their own appraisal. Most commonly, a lump sum of \$ 150 is generally paid for the appraisal of an apartment and around \$ 200 for the appraisal of a piece of land, provided no legal problems are associated with it. In other cases, where a legal study must be carried out because of seizure, renters' rights, landfill, etc., the fee could climb to \$ 3,000 , \$4,500, or more.