2026-2-3

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What is a home appraisal? Everything you need to know

Story by Taylor Freitas 2026-2-3

Key takeaways

- A home appraisal involves an objective professional evaluating a home to determine its value.
- Home lenders commonly order appraisals during mortgage or refinance underwriting.
- Appraisers take many factors into consideration, including the home's age, size, condition and location.

An appraisal is a critical part of the homebuying process. If your home appraisal comes in lower than expected, it can cost you money and potentially delay — or even derail — the entire transaction. Here, we delve into what an appraisal is, how it works and how it can impact your home loan.

What is a home appraisal?

A home appraisal is an objective, professional assessment done by a licensed appraiser to determine how much a home or property is worth. For the lender, they are determining collateral value — i.e., how much the lender can loan without losing money if they have to foreclose.

When buying or selling a home, an appraisal determines whether the sale price of the home is more, less or similar to the market value. This ensures that the mortgage lender doesn't lend more than it is worth. Since the home serves as the borrower's collateral, the accuracy of the appraisal matters significantly.

Likewise, when a homeowner is refinancing their mortgage, the lender will have the home appraised to confirm its market value before extending a new loan.

Home appraisal vs. home inspection

It's easy to confuse home appraisals and home inspections — after all, both involve an outside professional assessing the home. However, there's an important difference between the two.

- **Appraisal:** An appraisal estimates the value of the home as a dollar amount. It's required by mortgage lenders, primarily as a security measure — so they can ensure they're not loaning you more than the house is worth.
- **Inspection:** A home inspection, however, assesses the condition of the home. This is done for your benefit as the buyer, and while it's not required, it's standard for good reason. You don't want to move in only to find out the first time it rains that the roof leaks, or to discover when winter rolls around that the heating system needs replacing. A home inspector will look at the property's structure and major systems to evaluate for

safety and functionality — so you know about problems with the house before they become your problem. Buyers often use inspection results as a negotiating tool, asking sellers to cover the cost of needed repairs.

What happens during a home appraisal?

Once an order from a lender has been received, a licensed appraiser will either make an appointment to visit the home in-person or perform the appraisal remotely. (A remote appraisal might cost less, but it's generally a poor substitute for a physical, in-person visit.)

In addition to this physical evaluation of the condition of the property, the appraiser also analyzes recent sales of comparable properties in the area, or "comps." This information might be gathered from a variety of sources, such as the local multiple listing service (MLS), tax records, local real estate agents and county court records.

The appraiser also considers the neighborhood surrounding the property: The condition, style and sale prices of other homes in the neighborhood will affect your value. A newer home in a growing subdivision might appraise higher than an older home in a community that's in decline, for instance.

Here's a step-by-step overview of how the process works:

1. **Your lender orders the appraisal.** If you're buying a home, your lender will order an appraisal after your offer has been accepted and you've signed the purchase agreement. They might select the appraiser, or give you a list of approved appraisers to select from. If you're refinancing, they typically order the appraisal after you apply for the new loan.
2. **The appraiser visits the home.** The appraiser will conduct an inspection to determine the characteristics and condition of the property. A good appraiser will measure your house, draw a floor plan and make extensive notes. An in-person visit for a modest home might take just 30 minutes; a larger home can take several hours.
3. **The appraiser reviews comps.** Along with inspecting the property, the appraiser will conduct a market analysis and review public records to determine what similar properties have sold for, and how those relate to your home's value.
4. **The appraiser delivers a report and valuation.** Once the information has been gathered, the appraiser will put together a report, typically the Uniform Residential Appraisal Report, for the lender. As the borrower, you are entitled to a free copy of this report before the loan closes. Read it thoroughly and check to make sure everything about the physical and locational characteristics are correct. (Check details about the comps as well, if possible — for example, if you know a particular home is a rental property and not owner-occupied, that's probably not a good comparison.) Notify your lender if you believe it contains any inaccuracies or errors.

What does a home appraiser look for?

Appraisals are based on a lot of factors, some of which might not have anything to do with the house itself. For example, if a neighborhood has a lot of distressed home sales, that tends to lower the value of other nearby homes, no matter how nice they are.

Here are some of the main factors an appraiser may consider when determining a home's value:

- Location
- Neighborhood (Is it urban, suburban, rural? Is it old or new and growing?)
- Accessibility and proximity to transportation
- School district
- Square footage (of both the house and the lot)
- Layout
- Hazards (such as flood dangers or other adverse conditions)
- Age and condition of the foundation, roof, walls and overall structure
- Amenities, such as a fireplace, deck or swimming pool
- Condition of appliances
- Sales trends and price ranges for comparable homes in the neighborhood
- Real estate taxes as compared to comparable properties

The appraiser might also look at whether there is any rental income or fees associated with the property, such as homeowners association fees, as well as the cost to build a similar home from the ground up. If the fees are significantly higher then in comparable HOAs, it could have a negative impact on value.

What if the appraisal is lower than expected?

A lower-than-anticipated home appraisal can spell trouble for a sale. If this happens, the first thing to do is look over the appraisal report closely to check for errors that could account for the unexpected valuation. Remember that values do change over time.

If the appraised value is lower than the amount you've agreed to pay, as long as your sale contract has an appraisal contingency, you would likely be able to back out of the deal and get your earnest money deposit refunded.

Alternatively, you might decide to negotiate with the seller for a price closer to the appraised value. (You might even ask your Realtor to remind the seller that they will run into this problem with any buyer.) If you still want the house and the seller is unwilling to negotiate, a lower appraised value could force you to put more money toward the down payment to make up the difference.

If you're getting the appraisal as part of a loan refinance, you might still be able to refinance by offering to make up the difference. You may also consider asking for a second opinion, especially if you think the first appraiser made any factual errors.

How to prepare for a home appraisal

For homebuyers

- **Know your contingencies:** Home purchase agreements often include an appraisal contingency that allows you to walk away from the deal if the appraisal turns out lower than expected. Make sure you understand all contingencies in place before you sign a contract.
- **Don't feel pressured to make a higher offer:** A competitive market can make it tempting to offer more than a house is worth. Don't go overboard if you don't have the extra cash to cover the difference between a higher offer and the actual appraised value.
- **Accept that the outcome is out of your control:** As the buyer, you don't have much, or any, influence over the results of the appraisal. Make sure you have the right contingencies in place in advance so that if the valuation isn't in line with your expectations, you can walk away safely.

For refinancers

- **Make a list of improvements:** Get maximum credit for renovations or repairs you've done by providing details about work completed on the property. Tell the appraiser what you did (i.e., added a garage), when you did it and how much you spent, and provide photos and receipts if possible.
- **Clean and declutter:** If the appraiser is coming to your home, put in some effort to make it look its best by tidying up and stashing clutter out of sight. Maximizing your curb appeal by mowing the lawn, raking leaves and cleaning up flower beds couldn't hurt either.
- **Prepare your own comps:** To help avoid a low appraisal, you can offer to give the appraiser a list of properties in the area that you believe are similar to yours. Your real estate agent might be able to help, or you can research online listings. Keep in mind, though, that they will be under no obligation to use your suggestions — appraisers need to remain objective and will likely prefer to develop their own comps.