

What's the Difference Between Your Home's Market and Assessed Value?

Understanding your home's value is an important part of knowing your net worth, what you'll likely receive if you sell the property and how the local real estate market is faring. Home value is also an integral part of determining how much property tax you're required to pay the local and state government annually.

But depending on where you look, the value may appear as wildly different numbers. Different valuations can mean different things and are often used for different reasons. The two types you'll most likely encounter are market value and assessed value.

Market value is the estimated amount active buyers would currently be willing to pay for your home. Your home's market value is determined by an appraiser, who is typically hired when your lender is deciding how much money to provide in a loan or you are setting the list price when putting your home on the market.

Assessed value, on the other hand, takes the market value and puts it in the context of your property taxes. In many counties throughout the U.S., assessed value is a portion of the market value, calculated as a percentage of the market value of the property. As a result, the assessed value of a property is typically lower than appraised market value.

Market Value

Danielle Hale, chief economist for real estate information company realtor.com, explains that market value is based on the expectation that the property would sell during the period the value is calculated. "When people think about home values, they often mean, 'This is the price that I could sell it for if I were to sell it today,' or 'This is the way a bank would value it if I were to go talk to the bank about getting a home equity loan or maybe refinancing my mortgage,'" she says.

The grayest area of a market value is determining whether the value you assign to your home is based on what current market conditions say a person would pay for your house or what you think a person should pay for it.

For this reason, basing market value on recent sales of similar properties is key to ensuring the number is as accurate as possible. Professional appraisers are an instrumental part of being able to examine a property, nearby recent sales and the factors that may add to or detract from interest in a property, and then assigning a value to the house based on the information.

Appraisers are often hired by a lender, and it's best if they are local to the area so they understand nuances that may not be obvious to an out-of-towner, though sometimes an algorithm will be used to determine values on a larger scale or more quickly. A lender can have a property valued to issue a mortgage for a home purchase, for refinancing or to issue a home equity loan. Individual homeowners can also order their own appraisal to get a better understanding of their home's current value if they're considering selling but don't know what the asking price should be, or simply to get a better grasp on their net worth. An appraisal typically costs between \$300 and \$400, according to Angie's List, and is paid by the homeowner for personal use and the buyer for a lender-required appraisal.

An appraisal looks at the sale information of nearby homes with a similar square footage, age, number of bedrooms and other features of your property that have sold recently -

most often in the last six months. Appraisers will also factor in major differences that may make your home's valuation different.

Because the market determines the value, it's easier to pinpoint a more accurate value for homes that are similar to many in the neighborhood than for houses that are unique. A three-bedroom house in a neighborhood of matching three-bedroom houses is relatively easy to appraise, but a Victorian home on a busy street surrounded by condos and apartment buildings will be more difficult to value.

Assessed Value

Market value even becomes part of the calculation of your home's assessed value. But because assessed value is used for the sake of calculating how much you owe in property taxes, the assessed value is also based on laws of your state, county and even city, explains Margie Cusack, Research Manager for the International Association of Assessing Officers.

Because of the specificity of assessed value to your exact location, Cusack recommends all homeowners - as well as homebuyers who don't yet pay property taxes - become well-versed in the statutes that apply to the area, how the assessment is calculated and where your property taxes go.

"You really need to read your assessment notice," she says. "Usually that will define what assessed value means for that property."

The exact steps to assessing a property also vary by jurisdiction. Some assessor's offices will use a predictive algorithm to help determine assessed values for more properties quickly, while others will address assessments on an individual, in-person basis, Cusack says.

Many assessors' offices keep online databases open to the public that allow you to access information on the history of your property - including the deed from previous sales - and information that factors into the assessment of your property.

What if you disagree with your home's value?

At times, homeowners will disagree with the appraised or assessed value assigned to their property. In both scenarios, there are options for contesting the valuation.

For market value, a homeowner or buyer may be able to request a property be appraised a second time with new information the appraiser may not have been aware of before - a finished basement, for instance, can change the value of a home if it can be counted in the square footage. An appraiser may be willing to take a second look at the property without extra charge if something was missed, but you may also need to pay for another complete appraisal to have your house fully reevaluated.

When it's a lender issuing the appraisal and considering the value, however, there's not much chance you'll be able to convince the lender to change his or her mind on issuing a loan or refinance.

For assessed value, many assessor's offices have contact information listed and occasionally host public forums to discuss individual issues with property value information. Like the calculation of assessed value itself, the process for petitioning a reassessment varies widely between states and counties, so it's best to explore your local assessor's office website for information on discussing the matter.

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