

Do Foreclosure Sales Negatively Influence Home Values?

As a real estate appraiser I am often asked the question, "does the low sales price of the foreclosure or auction sale transacted in my neighborhood negatively influence the appraised value of my home?" It's a difficult question to answer, especially when you are answering it to a woman on the phone with you who is already crying because she lost her entire life savings when she lost the equity in her home. Sadly the answer to that question is often yes. If the foreclosure or auction sale was a "market sale" that was not transacted under duress, it must be considered together with the other neighborhood home sales when the property is appraised.

Appraisers consider, however, the fact that some foreclosure and auction properties are in sub-standard condition. Many foreclosure and auction properties are in need of new paint, flooring, doors, pool repairs, roof repairs, new fixtures or they had some other deferred maintenance that will require a significant cash outlay by the buyer. It is reasonable for an appraiser to adjust a comparable sale if that sale was in need of repairs on its sale date.

As Las Vegas, Nevada appraisers and agents we have found that there are generally fewer foreclosure sales and fewer auction sales in neighborhoods where many of the properties were not sold to out-of-town investors. Investor rich neighborhoods have seen some of the highest foreclosure rates and have had some of the largest sales price decreases in the Las Vegas market. Thus, home price decreases can vary substantially from one subdivision to the next in Las Vegas simply based on the number of investor foreclosures and auctions sales.

Las Vegas sales statistics provided by Data Quick, Inc. via their DQnews.com Internet site (dqnews.com) confirms that the median sales price of homes varies considerably among the zip code areas.

A foreclosure property in your neighborhood can take several weeks to several months to sell, even when a ready, willing and able buyer presents an offer. Often there are two or more underlying mortgage holders who must approve a sale, and we have found that mortgage holders rarely accept the first offer made to them in short sale situations. Foreclosure sales can be even more damaging when a property appears to be falling in value as it is offered by the agents at an ever decreasing asking price in their attempt to secure offers for the bank. The longer that a foreclosure property remains on the market the more that it appears to the public and lenders that the home and / or the neighborhood is undesirable.

Thus, large sales price reductions notable for foreclosure and auction sales can cause a significant negative influence to your home appraisal, and thus to your home's value. Keep in mind that these generalizations may or may not apply to your specific situation.

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