

Advanced Practices Section 2



What is a Home Worth?

by

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A Washington State Approved Real Estate School under R.C.W. 18.85.

What is a Home Worth?

Curriculum

Session Hours	Major Topics	Equipment Materials	Assignment
1 1 hour	<ol style="list-style-type: none"> 1. What is Value 2. Market value vs. Market Price 	Handout	Take Notes Complete quiz
2 1 hour	<ol style="list-style-type: none"> 3. Determining Value 4. Appraisal Approaches 5. Principles of Value 	Handout	Take Notes Complete quiz
3 1 hour	<ol style="list-style-type: none"> 6. Evaluating Property Condition 7. Depreciation 8. Inspection 9. Real vs. Personal Property 	Handout	Take Notes Complete quiz
4 1 hour	Market Analysis Choosing Comparables Determining Value	Handout	Take Notes Complete quiz
5 1 hour	Dangers of Overpricing The Commission Legal and Ethical Considerations	Handout	Take Notes Complete quiz

What is a Home Worth

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This is a 5 clock hour course on determining the market value of residential property. As an broker, one of the largest responsibilities we have is to put an estimate of market value on an owner's home. The material covers the definition and principles of value, the appraisal process, the steps to create a detailed market analysis report of a residential home, analyzing statistics, legal and ethical considerations and creating a detailed report.

Learning Objectives

Upon completion of this course, the student will be able to:

1. Understand the concept of “value” and how it affects pricing
2. Identify the difference between cost, value, and price
3. Discuss the 10 principles of value
4. Compare and contrast assessed value, appraisal and market analysis and the parties that are involved in determining each value
5. List 3 basic appraisal approaches and their components
6. Identify key factors in evaluating property conditions including pricing and zoning
7. Identify appropriate comparables for a piece of property
8. Complete a market analysis for a seller
9. Identify the dangers of overpricing a property
10. Discuss legal and ethical implications of pricing a property

1. What is Value?

These two quotes are my favorite when it comes to talking about pricing property.

How much should you ask for your House?

Dave Barry is a humorous columnist and author of numerous books. In his book, Homes and Other Black Holes, he wrote:

“This is a very difficult question, but top real estate experts from all over the world agree that you should ask \$127,500 and ultimately settle for \$119,250. Also, you should throw in the outdoor gas barbeque system with the charcoal roasted spiders permanently bonded to the grill.”

Like there is some kind of magic answer to the question?! As brokers, we don't automatically know how much every house is worth! And, of course, when he wrote the book prices were lower!

“Is there any such thing as a fair or accurate price?”

Jim Stacy, a real estate broker in Seattle, was the author of the book, Washington Homes. He writes:

“Why do some cars cost more than houses? Why do diamonds usually cost more than dishwasher? Why do bad movies cost as much as good ones?”

Obviously, the factors that determine price are not always *logical*, are not necessarily tied to *function*, and are hardly ever in our *control* to the extent that we would like. It is all very confusing. The best that we can hope for is to understand how a reasonable seller goes about pricing his house, how a buyer judges whether it's a reasonable price, and how an appraiser concludes whether the seller and the buyer are talking turkey or babel.

This 1500 square foot house is priced at \$120,000. But, the one on the hill that is the same size is \$190,000. If size isn't a factor in this case, what explains the difference in price?

First, we look to see if there are any tangible, emotional, or cultural factors, such as view, greenbelt, waterfront, zoning, noise, commuting considerations or a larger lot. If not, the explanation most likely has to do with education and politics.

Nowhere, does our pricing scheme tell us that if a house costs more that is is worth more! Or, that it isn't. How do we define worth? Do we automatically get more square feet, fewer cracks, better insulation, or higher amperage? Of course not. Worth is perception, it is belief, it is faith. We merely get a house that most people would say is worth just what we paid for it.

Anyone's analysis will prove that pricing is a much more complicated fact of life than the casual observer thinks. This brings us to one of my pet peeves: the belief that there is such a thing as a fair or accurate price."

Cost vs. Value

Value is an abstract word with many acceptable definitions. In a broad sense, value may be defined as the relationship between an object desired and a potential purchaser. It is the power of a good or service to command other goods or services in exchange.

Value may not be the same as the cost. An item can cost \$50.00 but the value can be any amount higher or lower. For example, a \$50 set of used drumsticks can be worth \$5,000 if they were used by Ringo Starr or be worth only \$5 if they belonged to the kid down the block.

Value can be affected by time, location, emotions, previous ownership, perceived or expected market changes, interest rates and cost of money.

Value may be different than the price the item sells for. The owner may perceive a much higher value than the prospective buyer sees. Sometimes, the buyer can perceive a higher value than the owner.

Value is a concept that can be difficult to define. There are many factors that influence value and therefore prices. All of these can relate directly to the value of a piece of real estate. The value to a homeowner may vary from the price another buyer is willing to pay. For example, value is....

- Not always logical....a car can cost more than a house.
- Not always tied to function....a diamond can cost more than a computer.
- Not in our control.... bad movies cost as much as good ones.
- Not based on location...a view can be worth more than waterfront.
- Not always fair... waste management employees often can earn more than teachers.
- Not based on improvements... cologne up to a certain point is sensuous, but too much is nauseating.
- Not based on depreciation... a dull antique mirror can be worth more than a new clear one.

Value is what a buyer decides the product or service is worth for payment.

“But my house is worth more!”

You will hear all those reasons by a prospective seller as they sit at the table during a listing presentation.

“It’s not logical that the frame house down the road sold for more than ours will.”

“Our house has all the latest technology and upgrades including a gas range, computer controlled heat and lights, etc. That house sold for more has none of those upgrades... they only have new carpeting, nice landscaping, and new countertops in the kitchen.?”

“Our house is on the river... shouldn’t it be more than the one with the view?”

“It isn’t ‘fair’ that the market is slowing down and we can’t get as much money as last fall.”

“We added a swimming pool. Shouldn’t that make our house worth much more?”

“I can’t believe that the old brick tudor that is outdated is selling for more than the new skinny house down the road.”

And so it goes in real estate valuation. There are no strict or set rules.

But Zillow says....

Computerized valuation is used constantly today, but the true value of a property cannot really be determined by a computer. Over time, maybe as the computer valuations include all past sales, you will see that they become more accurate.

Zillow.com gives a value that the homeowner might or might not see as powerful depending on whether it is high or low. Zillow reports its accuracy on charts and graphs for the zip codes, so definitely check that each time you go to a listing presentation. Zillow is not meant to be an accurate valuation.

Definition of Value

The definition of value in real estate is "**the present worth of future benefits arising from the ownership of real property.**" To have value in the real estate market, property must have these characteristics:

1. **Demand.** The need or desire for possession or ownership backed by the financial means to satisfy that need.
2. **Utility.** The capacity to satisfy human needs and desires.
3. **Scarcity.** Reflects the theory of supply and demand. The more scarcity in relation to the demand results in an increase in value.
4. **Transferability.** The relative ease with which ownership rights are transferred from one person to another. Title that has restrictions is not freely transferable, i.e. property of a life tenant.

2. Market Value vs. Market Price

Market Value

A given piece of real estate may have different kinds of value at the same time. Consider the difference between market value, assessed value (used for tax purposes), insured value (for insurance), book value, mortgage value, salvage value, and depreciated value.

The definition of market value of real estate is:

Price	<i>The most probable price a property will bring. It is not the average or the highest price.</i>
Terms	<i>Payment must be made in cash or its equivalent.</i>
Relationship of the Parties	<i>Buyer and seller must be unrelated and acting without undue pressure.</i>
Market Time	<i>A reasonable length of time must be allowed for the property to be exposed in the open market.</i>
Knowledge	<i>Both buyer and seller must be well informed of the property's use and potential, including its assets and defects.</i>

Market Price

The market value is an estimate of value based on an analysis of comparable sales and other pertinent market data. Market price is what a property has actually sold for. Market price is the sales price. Theoretically, the market price would be the same as market value. It can only be accurate evidence of current market value if all of the above are factors.

Often when a buyer says that they purchased a property well below the market value, if the factors above are taken into account, the price they paid... the market price is the market value. Market value is an opinion and an estimate of what the market price is anticipated to be.

How would changes in the above factors change market price?

Sellers Motivation

Take a look at the homes on the market, today. The reasons people are selling are as varied as the styles of the homes. Understanding the motivations of the sellers can help you not only target your market, but also see the obstacles that may be present.

As an broker of the sellers, you should realize that the reasons they are putting their property up for sale may be confidential. The motivation for selling should not affect the price for which the home is marketed. In other words, the sellers have the right to obtain the most money possible for their home on the market regardless of whether they are in a desperate situation or moving up. The sellers can choose to make their motivation known to the buyers in hopes of creating a sale in a smaller time period. The time factor can have a critical relationship to the price the sellers will accept.

Reasons to Sell

Homeowners choose to sell properties for a variety of reasons. Some sales are forced sales and some are joyful ones. Often there are more than one reason for selling and the consequences an have domino effects. The underlying reasons can create the most obstacles.

What are some of the reasons homeowners sell?

-
-
-
-
-

No matter what condition the market is in, there will **always** be customers that have to sell and buyers that are ready to buy. When the market appears to be "dead" this list is the first thing you need to review! Families are growing and shrinking, having financial stresses, marrying, dying, and retiring.

When you choose listings, choose them based on motivation. Do they need, want or really intend on selling? What are the consequences if they don't sell? If they don't want to sell, they probably won't.

When you determine the market value of a property, it should not be determined on the motivation of the seller. The seller can choose to price the property lower or higher depending on their motivation. But it is not a factor in determining value. The market and the economy determine the value.

3. Determining Property Value

Assessment

The official valuation of real property for tax purposes based on appraisals by local government officials. In Washington State, the assessed value is supposed to be the fair market value.

Can you assume that the tax assessment is an accurate reflection of the current value of a home?

Appraisal

An appraisal is one person's paid opinion of a property's value on the day it is appraised.

The primary purpose of an appraisal in a real estate transaction is to protect the lender. If the lender does not loan more money than the property is worth, then in the event of a default and the lender has to foreclose, the lender should be able to sell the property for at least the balance of the mortgage.

Appraisals can also be done for a variety of reasons other than the real estate sale. For example, to determine the value for a divorce settlement, insurance purposes, relocation, death, etc.

Who does appraisals in Washington State? Before the summer of 1990, the answer was; "anyone who wants to." Nothing was required. But, now all appraisers have to take exams and have the experience and clock hours to be **licensed** in Washington State. There are a number of professional organizations they can pay dues to belong. (MAI Member Appraisal Institute).

Most appraisals are on standard forms. The appraisals usually include at least 3 comparable properties within a certain distance. The properties must be similar in style. The appraiser makes "adjustments" to reflect the differences between the subject property and comparables. The appraisal usually only looks at recent closed sales.

Who pays for the appraisals in a typical real estate transaction?

Market Analysis

Known as a comparable market analysis, Competitive market analysis, brokers price opinion, complimentary market analysis or CMA. It is an opinion of the current market value of a property from a licensed real estate broker based on active, expired and sold comparable properties. There are no standard forms or parameters.

Name three differences between a Market Analysis and an Appraisal.

Zillow and Trulia

No discussion about property value today would be complete without mentioning Zillow or its acquisition, Trulia. Zillow has a computer based valuation, the Zestimate, that is done mysteriously. According to Zillow, “The Zestimate® home value is Zillow's estimated market value for an individual home and is calculated for about 100 million homes nationwide. It is a starting point in determining a home's value and is not an official appraisal. The Zestimate is automatically computed three times per week based on millions of public and user-submitted data points. User-submitted updates to home facts will be updated in the Zestimate immediately.”

It is all computer based using information provided from primarily the county records, homeowners, and real estate firms. In the Puget Sound area, the Northwest MLS does not provide Zillow with direct feeds to the database of listings or sales.

Zillow’s talking points include the words “starting point to determine value.” It is intended to be a rough estimate based on the information and not an actual appraisal or assessment or true market analysis. In some cases, the Zestimate is very accurate. In other cases, it is so totally inaccurate that if relied on could cause monetary loss.

So, when talking with a seller, discuss that it is not intended to be accurate and just a starting point. Go to Zillow and review the statistics and the information to help the homeowner understand the purpose and function of the Zestimate.

Zillow is primarily a marketing organization using the property information to sell advertising.

The Zillow organization is not licensed to sell or list real estate in Washington State. There is no governmental body that is overseeing the activities of Zillow as it is not licensed and not a member of the MLS.

4. Three Approaches to Value

Appraisers evaluate the value of varying types of properties. They use the three following methods to arrive at an estimate of value. Some of these methods are used specifically for certain types of property and some are used in combination.

The Sales Comparison Approach

This is an estimate of value by comparing the property to the closed sales of other similar properties. Adjustments are made to compare one property to another. It is the most common and effective method to determine the market value of residential real estate.

The Cost Approach

The cost approach looks at the cost to replace the improvements. The cost of constructing the improvements is determined and then depreciation is deducted from that amount to determine the cost. The land cannot be “replaced” so the value of the land is determined by the Sales Comparison Approach. The cost of the improvements less depreciation is added to the value of the land to determine the market value of the property. This is commonly the approach used to determine the value of industrial properties.

The Income Approach

Some properties have value in that they generate income. Their value can be directly related to the income they produce. For example, the value of an apartment building is determined by looking at the rental income. In order to determine the market value, the income, less expenses is computed. In addition, there are a number of computations to determine the investment value to a prospective purchaser.

The application of the three approaches results in three different estimates of value.

What approach would typically be used for the following types of properties?

1. *Apartment building*
2. *Residential two story home*
3. *Retail strip mall*
4. *Vacation property on waterfront*
5. *Vacant land*

5. Ten Principles of Value

While many property owners could probably make a fair guess as to the value of their property, they would still be unable to identify all or most of the factors that contribute to that value. The knowledge of precisely what those factors are and how they influence value is part of what lends credence to a professional estimate of market value. The basic value principles are interrelated and their relative importance will vary depending up on particular local conditions. When analyzing a property to determine market value, it is important to consider the following principles.

- 1. Highest and Best Use.** The use that provides the greatest net return over a period of time. It could be determined by current zoning or changes in the zoning. Residential properties, if zoned as such, are at their highest and best use.
What if a residential home is located in an area that has been rezoned for commercial? Is that in your expertise to evaluate?
- 2. Supply and Demand.** Values tend to rise as demand increases and/or supply decreases. The market activity has an effect on the value. Perception of the public affects demand. The lack of supply itself will not increase demand. There are other factors that must be considered.
What other factors influence demand in the market? What is the activity in the real estate market now? Is there a great supply of affordable homes available? Is there a number of high end homes available. How does that affect the value?
- 3. Substitution.** The maximum value tends to be set by the cost of purchasing an equally desirable replacement.
*Often homeowners do not see the split-level home on the same block as a “substitute” property. How do you explain the comparables used in an analysis? What is a desirable substitute? **There is always an equally desirable substitute!***
- 4. Change.** The future is the primary consideration over the past when estimating value. Natural Phenomena, wear and tear, depreciation and the demands of the market change continuously.
What kind of changes do you evaluate when analyzing a property to determine value? What is an example of a future event that affects value?

5. **Balance.** When the addition of improvements increases the property value.
If a homeowner adds an additional bedroom, will it always increase the value to the amount that the cost was for the remodel?
6. **Conformity.** The value is affected by the conformity to the existing neighborhoods.
How do subdivision restrictions rely on the principle of conformity? Is it better to own the best house in the area or the worst? Why?
7. **Anticipation.** Value can increase or decrease in anticipation of some future benefit. *In the Seattle area, the value of properties can go up in anticipation of a new Amazon building nearby to house thousands of employees. Value can go down if the city decides to add a freeway in the neighborhood.*
8. **Increasing returns.** As long as the improvements produce an increase or income or value. Some improvements do not produce an increase in value and some do. *Can you think of an improvement... something a seller added... that does create value?*
9. **Diminishing returns.** When the improvements do not add to the value. *The addition of a swimming pool might not increase the value.*
10. **Contribution.** The value an improvement adds to the overall value. *How much does the remodel add to the overall value of the property?*

These principles are used whenever looking at the value of a property.

6. Evaluating Property Condition

Evaluating Property Condition

Both buyers and sellers are typically worried that the other party may be hiding something. It is possible that one or the other may not be totally honest in his representations. Even when this is not the case, the suspicions of either party can be a difficult barrier.

The law states that there can be no misrepresentations and real estate brokers must abide by it and bring to light any concerns about items of consequence in the transaction. All facts that have an impact on the transaction must be disclosed.

The broker could be liable for active fraud for intentionally misrepresenting a defect with the property. If the broker made false statements about the property and “should have known” that they were false, the broker could be liable for negligent misrepresentation.

If the seller misrepresents the property but the seller is unavailable or bankrupt, the buyer’s attorney may look to the listing broker and broker for damages!

The seller fills out a property Information Disclosure form. It is a law in Washington State. The seller can elect to not fill out the form but must fill out the environmental section. The buyer then has the right to walk prior to closing if that is the case.

When a real estate broker prepares a market analysis report and gets ready to list a property, it is important to look carefully at the neighborhood and the structure. It is not always the questions that you are unsure of the answers, but the questions that you fail to ask.

***Anything that would affect a buyer’s decision to buy or how much that buyer would pay for the property must be disclosed!
Keep your eyes and ears open. Misrepresentation is the largest source of lawsuits!***

Ignorance will never hold up in a court of law. The condition of the property directly affects the value. The broker is not a home inspector, but it is important to make sure that you are not withholding any information about the condition of the property.

Be especially conscious of environmental factors that should be disclosed including:

- | | |
|---------------------------------------------|----------------------------|
| Mold issues | Power lines |
| Underground Storage tanks | Cell towers |
| Asbestos in ceilings and insulation | Lead in paint and plumbing |
| Indoor air quality from lack of ventilation | Carbon Monoxide |

Zoning, new construction, parking, schools, parks, noise?	Plumbing? Check for leaks? Septic tank condition?
Utilities? Septic or sewer? Gas or electric? Cable? Water availability?	Attic accessible? Vented? Vented crawl space? Craw space covered?
Access? Easements? Road Maintenance agreement? Encroachments? Fences?	Dry rot? Bathroom floor? Behind tiles?
Roof? Condition? Type? Pitch? Age?	Floor plan? Functional obsolescence?
Gutters? Down spouts? Standing Water? Drainage?	Cracks anywhere? Peeling paint?
Landscaping? Earth to wood contact?	Wood stoves? Approved wood stoves? Chimneys?
Heating systems? Hot water tank? Electric box? Appliances?	Insulation? Attic? Crawl Space? Windows? Hot water tank?

Be very careful on the way you phrase a question or answer one. For example, " Mr./Mrs. Seller, is the property on the sewer line?" Does "on" mean hooked up or that it is running in front of the property? Actual lawsuits have centered on just this kind of misunderstanding!

7. Depreciation

Depreciation is the difference between the value of the existing improvements and the cost of replacing the improvements. It represents a loss in value due to age, neglect, undesirable features within the property, or negative influences from without.

Land value plus the replacement costs of its buildings is usually the maximum a property can be worth. In the absence of extraordinary circumstances, no one would pay more for something than it would cost to replace it.

There are three forms of depreciation.

1. Physical Deterioration

Over time improvements experience deterioration. Often, if the deterioration can be corrected, maintained, or replaced. There are times that the cost to repair is greater than the cost to rebuild. The same principle can be true for automobiles. If you were to rebuild the car in your driveway, it can cost far more than purchasing a new one. But, it is expected to replace certain parts, including the tires, over time.

2. Functional Obsolescence

The property may have become dated according to the standards of the area. Or, the homeowner has made changes to the property that make the property not as functional as the comparables.

In the case of an automobile, some very old cars do not have seat belts with shoulder harnesses. Other cars have been altered, for example, low riders, that make them not as marketable in the suburbs.

3. Economic Obsolescence

A freeway exit, a neighboring airport or the construction of a strip mall down the block can have an effect on the value of a residential property. Often, the homeowner does not have the choice and the problem cannot be cured.

What form of depreciation is found in the following examples?

- 1. The entrance to the family room is through the fourth bedroom.*
- 2. The county has downzoned the area.*
- 3. The foundation is substandard.*
- 4. There is no garage.*
- 5. The adjoining street becomes an arterial.*
- 6. There is only one bathroom.*

8. Property Information Disclosure

Since 1994, Washington State has a Property Information Disclosure Law RCW 64.06 that requires a seller of residential real estate to provide a buyer with a disclosure statement as designed by law prior to the closing of the transaction whether or not the sale occurred with a real estate broker or without a broker. There are sellers that are exempt, for example, estate sales. If the seller does not provide the buyer with the form, then the buyer has the right to rescind the transaction prior to closing.

If the seller does not provide the buyer with the form and the seller does not disclose a material defect, the fact that the sale closes does not automatically relieve the seller from disclosure. The seller, with or without the form, is required to disclose all material defects.

All sellers who are listed in the NWMLS who are not exempt from the law, i.e. estates, are required to provide a property information disclosure form as a part of the listing agreement.

According to some attorneys, no other single document in a real estate purchase and sale agreement has generated as much litigation as this particular form. Over 2/3rds of all real estate lawsuits center on misrepresentation.

Seller fills out the form. From the day real estate brokers were presented with the form, brokers, the MLS and trainers have clearly recommended that the seller is the only one to complete the document. The broker must not help or assist in the filling out of the form.

There are times that the broker has reason to believe that information on that form is not correct. In those cases, it is not wise to “play ignorant” and not question the information that you are passing on to the buyer. If the buyer is “damaged” you may find yourself in a lawsuit trying to explain why you didn’t question grossly inaccurate information you “should” have known was incorrect.

Because of the two latest lawsuits regarding disclosure, in our state it is really “buyer beware.” It is important for a buyer to

**Beware
Inspect
Question
Reinspect.**

Don’t make assumptions. If there are any defects disclosed or found in an inspection, make sure that the buyer is thoroughly satisfied that they are not going to be a problem in the future.

What are 6 examples of questions that are asked on the form?

Inspection Clauses

There are few transactions today that don't have an inspection of some sort included in the agreement. The inspection clauses written in contracts are disputed more often than almost any other clauses. The NWMLS has an inspection clause addendum. In addition, many companies have their own clauses. Each contract is slightly different, but the smallest addition or deletion of words can change the parties responsibilities dramatically.

Negotiating a transaction after an inspection can be extremely time consuming and stressful on all parties. But, it appears that few transactions actually fail strictly due to the inspection.

Inspections can include:

- Residential home inspection,
- Structural or soils analysis,
- Neighborhood review,
- An environmental analysis, or
- Pest inspection.
- A sewer scope
- A septic inspection

It is important to note that not all home inspectors are licensed pest inspectors and that may limit their ability to inspect the entire house.

The seller has the duty to disclose any material facts that would affect the buyer's decision to buy or how much the buyer is willing to pay. The seller is not relieved of liability because the buyer had an inspection. Washington State is basically a "buyer beware" state.

The buyer may have an inspection that could reveal a problem that the seller may have to correct and disclose to future buyers. For example, the new purchase and sale agreement in the NWMLS requires that the buyer get the sellers permission to test for the contamination of the soil near an underground storage tank.

9. Real Property vs. Personal Property

One of the most common disputes at closing involves what was personal property and what was attracted to the real property as a part of the sale.

What are attachments?

Natural (trees, plants, crops)

Man-made (fixtures, appliances, bookshelves)

What are the "fixture tests?"

Method of Attachment: How is it attached to the property? Screwed, wired?

Intention of the annexor: What was the intention? To have it remain?

Adaptability to the realty: How does it adapt? Is it built-in?

Relationship of the parties: Landlord/ tenant? Parent/child?

Evidence of a written agreement: Did they agree in writing?

1. *Can an item be a fixture and change to personal property and back again? (a toilet can be put in the garage, then installed, then removed)*
2. *Should personal property be included in a market analysis report when determining value? No.. only real property*
3. *If there is an item of personal property included in the listing is it automatically included in the sale if not written in the purchase and sale agreement? NO.. do not make assumptions.*
4. *When is the hot tub a fixture? There is no definite answer.. if it is wanted, the buyer needs to include in the agreements.*
5. *What about prize rose bushes? They are a fixture unless the seller digs them up prior to selling.*

6. *What personal property is included in the Northwest MLS purchase and sale agreement?*

10. The Market Analysis Report

Completing a Market Analysis Report

1. Describe the subject property. Is there information you need that you do not have?
2. Where else can you obtain information on the subject property?
3. Order a property profile on the property from the title company.
4. Is the profile of the property from the Title Company and county records correct?
5. Copy a map and plot the comparables.
6. Explain the use of active, pending and expired listings as well as sales.
7. Choose three comparables from each type of listing and explain why they were chosen.
8. Estimate the value of the subject property. Did you come with a range or an exact price?
9. What market statistics can help the seller understand the market?
10. What is the average time on the market for this type of property in this area?

Choosing Comparables

In order to determine the current value on the market today, it is necessary to take a look at the past and the future market.

- Sales
- Active Listings
- Expired and Cancelled Listings

Comparing Features

In a perfect world, we would be comparing apples to apples. But, there are not two identical properties in the world. When evaluating the comparables, you need to first determine what amenities are the primary ones that direct the value.

Bedrooms	Age
Baths	Neighborhood
Fireplaces	Appearance
Condition	Garage
Age	View
Location	Rec Room
Size	Family Room
Style	Sale Date

Determining Value

The market analysis is only as accurate as the adjustments made to arrive at an estimate of market value.

11. The Dangers of Overpricing

Just about every property owner in the world believes that their property is worth more than the current market will bear. It is a given just about every time a real estate professional or an appraiser determines a range of value. There are risks attached if the seller prices their property over the current market value.

The two greatest risks that can affect a seller are:

- The property may never sell
- The seller will not get top dollar

If the owner intends to sell the property and attempt to get "top dollar" there are dangers to intentionally overpricing the property. The dangers include but are not limited to the following.

- The home may not meet lender qualifications. It must appraise for the buyer to get a loan.
- It will take longer to sell. It will be on the market too long and become "shopworn."
- The property will have fewer showings limiting the market. Buyers, as well as brokers, are wary of overpriced homes.
- The seller may receive very low offers. Don't wait for them because they are rare and often insulting.
- The property will help sell the competition. The buyers will compare it against another property they are intending to purchase.
- The sellers have to weigh the "holding costs" during the longer marketing time.
- Once an broker sees an overpriced listing, they never go back. Brokers don't want to show properties that are overpriced.
- Sellers end up selling for less than what they would sell for if the property was priced right initially.
- Overpriced listings attract the wrong buyers. Buyers have certain images of homes in that price range based on what they have seen.
- The sale price reflects motivation and sellers are competing with sellers that HAVE to sell.
- Sellers look greedy by asking more than the competition.
- If the seller were a buyer, he wouldn't buy an overpriced house. Just put the shoes on the other feet.
- About 40% of properties sell in the first 30 days if they are priced competitively regardless of the market conditions.
- The impact from lowering the price is minimal and often overlooked. Therefore, it is highly recommended to list at a competitive price initially.

12. The Commission & Ethical Considerations

The commission is the compensation for the performance of services related to a real estate transaction. To be entitled to receive a commission in Washington, a real estate broker must be licensed in the state. The seller may only be liable for payment of the commission if the agreement was in writing.

Commission Amount

The amount of commission is always negotiable. It is not set by laws, multiple listing services, real estate broker groups, or professional associations. The commission amount is negotiable between the broker and the seller.

Brokers cannot fix or set uniform commission rates. The commission must be negotiable due to anti trust laws. Real estate brokers and brokers from different companies are not to discuss commission rates or it could be construed as price fixing, a serious crime. This includes casual or what might be considered *innocent* discussions about the rates their brokers are charging.

To avoid the perception of price fixing, the Northwest Multiple Listing Association does not publish the full commission rates on the listings. Often, only the sales commission paid to cooperating brokers is published.

The broker of a real estate firm can establish the commission rates to which the brokers in that firm are to adhere when they list properties.

Payment of Commission

All commissions in a real estate firm are paid to the brokers and not directly to the brokers. The salesperson may only receive a commission from the broker that he/she is licensed under.

The listing agreement should specify the amount and the time the commission is due and payable.

The broker is due the commission when all the terms of the purchase and sale agreement are satisfied. This may be after conditions specified on the agreement, are met.

Relationship of Value and Commission

When preparing the market analysis report, bear in mind that the value of the home is determined by analyzing similar properties. The value is not

related to the amount of commission paid on the sale. The commission is not a part of the public record.

Ethical and Legal Considerations

As a real estate broker, you have the professional duty to not only sell homes, but counsel homeowners as to the market value of the most valuable investment most people will ever own. Along with that comes responsibility to your clients and to your peers in the industry. When offering your services to present a Market Analysis of a property, bear in mind the following tips that may keep you out of court.

- Keep accurate records on all Market Analysis reports you present. Include the date and the comparables.
- Never give a sale price in a Market Analysis report. Your estimate of value is exactly that...an estimate of the probable sales price. It is suggested that you always give a range.
- Date your Market Analysis report. Your estimate is your opinion on that given date and it can change at a moments notice due to circumstances out of your control... the interest rate could skyrocket causing house prices to plummet.
- Know that you are in an implied agency relations. You are creating a confidential report that should not be public knowledge without the express permission of the customer.
- Never choose a price to list a property. Your job is to present an opinion of value. The seller should always choose the listing and sale price based on the information they have at hand.
- As an broker, if you want to purchase a home, it is not advisable to base the sales prices solely on your own Market analysis presentation. It is wise to have an appraisal ordered.
- Never intentionally give an opinion of value that is above or below what your research supports, no matter how "bad" you want the listing.
- Never promise a property will sell at a given price. You cannot predict the future.
- Never give an "off the cuff" estimate of value of a property. They look to you as a professional and even without research will hold you to your word. As an broker you must be able to support any value opinion with research.
- Deal with prospective clients with the utmost of respect and professionalism regardless of the type or condition of the property or the client. Never base a Market Analysis opinion of value on the motivation, personality or the type of client.

What is A Home Worth?

Quiz

Market Value Questions

These are the types of questions that the seller asks when they are determining the listing price and broker for their property. How would you answer them? You can write on here.. back of answer sheet or a separate piece of paper.

1. *Shouldn't we list with the real estate broker that says they can get the most money for our property?*
2. *Shouldn't we leave a large cushion for negotiation?*
3. *We need to add the money we spent on improvements to the price of the house, don't we?*
4. *The swimming pool increases the value by the total cost to install it, right?*
5. *Who decides the price the house will sell for? The selling broker? The listing broker? The Seller? The Buyer? The appraiser?*
6. *Does the addition of an extra bedroom and therefore more square footage always add to the value?*
7. *But, we bought the house for \$x last year. Don't we just add the appreciation?*
8. *Is the appraisal that was done for the divorce last fall the true market value of the home?*

Section 1 What is Value

9. T/ F ___ The “cost” of an item is always directly related to its “value.”
10. T / F ___ Value is not based on depreciation.

11. T / F ___ The capacity to satisfy human needs and desires is called demand.
12. T / F ___ The definition of value in real estate is the present worth of future benefits.
13. T / F ___ The market value is the most probable price a property will bring.
14. T / F ___ The market price is the price a property actually sold for.
15. T / F ___ No matter what the condition of the market, there will always be buyers and sellers.

Section 2 Determining Property Value

16. T / F ___ An appraisal is one person's paid opinion of value on the day of the appraisal.
17. T / F ___ A market analysis is the opinion of property value by the real estate broker.
18. T / F ___ An assessment is the true reflection of the property value of property in Washington.
19. T / F ___ The use that provides the greatest net return is highest and best use.
20. T / F ___ The future is the primary consideration over the past when estimating value.
21. T / F ___ Value can increase or decrease in anticipation of some future event.
22. T / F ___ Improvements always add value to a property.

Section 3 Evaluating Property Condition

23. T / F ___ A property "on the sewer main" does not necessarily mean "hooked up to sewer."
24. T / F ___ A tree is an example of a man made attachment.
25. T / F ___ Evidence of a written agreement between the parties is the best test for whether the item is a fixture and included in the purchase of real property.
26. T / F ___ An item can be a fixture and change to personal property and back again.

27. T / F ___ If the rose bushes are in buckets in the garage they are not considered “attachments.”
28. T / F ___ Economic depreciation may not be curable.
29. T / F ___ Deferred maintenance can result in physical deterioration.
30. T / F ___ The Property Information Disclosure Law is a national real estate law.
31. T / F ___ If the seller does not provide the buyer with the Property Information Disclosure form, the buyer can walk away from the transaction prior to closing.
32. T / F ___ The Property Information Disclosure form is to be filled out by the broker.

Section 4 The Market Analysis Report

33. T / F ___ The title company can provide information from the county records on the property.
34. T / F ___ The market analysis is only as accurate as the adjustments made when comparing the property to the others.
35. T / F ___ The expired listings in a market analysis report are listings that failed to sell.
36. T / F ___ Current listings give an indication of the “competition” on the market.
37. T / F ___ The addition of a bedroom and more square footage always adds to the value.
38. T / F ___ There are dangers to marketing a property higher than the market will bear.
39. T / F ___ A property on the market for a long time can get “shopworn.”
40. T / F ___ Buyers are wary of overpriced listings.
41. T / F ___ The impact from lowering the list price is phenomenal.

Section 5 Commission

42. T / F ___ The amount of commission is negotiable between the seller and the real estate company.

43. T / F ___ The listing commission is due the day the purchase and sale agreement is signed.
44. T / F ___ All commissions are paid directly to the brokers.
45. T / F ___ Brokers can meet monthly and set standard commission rates.
46. T / F ___ The real estate commission is not a part of the public record.
47. T / F ___ In Washington State in order to receive commission on the sale of real estate the broker must be currently licensed.
48. T / F ___ There is more than one value for a piece of property.
49. T / F ___ Demand in the market can affect the value of a home.
50. T / F ___ If you are considering purchasing a property, it is important to have another licensed broker or an appraiser work with the seller to determine value.

List 6 “Dangers of Overpricing”

51. _____ 52. _____ 53. _____
54. _____ 55. _____ 56. _____

Name the 4 characteristics for the “Definition of Value.”

57. _____ 58. _____ 59. _____ 60. _____

Answer Sheet... What is a Home Worth?

1		31	
2		32	
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30		60	

A clockhour is 50 minutes. This section should have taken you near 4 hr 10 minutes. How long did it take you to complete?__

I attest that I have read the materials and have answered the questions. _____

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