What is a Home Worth?

by

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PROFESSIONAL Direction INC

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You will be provided with a booklet of with the class material. The booklet is for use ONLY as clockhours under Professional Direction. Any other use by permission only!

The course has been divided up into one hour sessions. In Washington State a "clock hour" is 50 minutes. There are questions about each session. They can be answered while reading the material, at the end of the session, or at the end.

Answer the questions on the quiz answer sheet.

Questions regarding the material or the questions, don't hesitate to call or email Natalie Danielson.

EMail and scan Answer Sheet and Evaluation to Professional Direction.

Tuition The tuition is paid online with the payment link on the front of the website.

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Disclaimer.. the course materials and questions are not to be used for legal advice. Information can change over time. Real estate transactions are handled different ways in different regions in the State of Washington. If you have any comments or concerns about the material contact Professional Direction. Thanks!

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What is a Home Worth?

Curriculum

Session Hours	Major Topics	Equipment Materials	Assignment
1 1 hour	1. What is Value	Handout	Read Take Notes Complete quiz
2 ½ hour	2. Market value vs. Market Price	handout	
3 1/2 hour	3. Determining Value	Handout	
4 ½ hour	4. Appraisal Approaches	Handout	
5 ½ hour	5. Ten Principles of Value	Handout	
6 ½ hour	6. Evaluating Property Condition	Handout	
7 ½ hour	7. Depreciation 8. Property Information Disclosure	Handout	
8 1/2 hour	9. Real vs Personal Property 10. Market Analysis	Handout	
9 ½ hour	10 Market Analysis	Handout	
10 1/2 hour	11. Dangers of Overpricing 12. The Commission and Ethical Considerations	Handout	Read Take Notes Complete quiz

What is a Home Worth

by Natalie Danielson

This is a 5 clockhour course on determining the market value of residential property. As a broker, one of the largest responsibilities we have is to put an estimate of market value on an owner's home. This class 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:

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

1. What is Value?

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, politics or simply taste.

Nowhere does our pricing scheme tell us that if a house costs more that it 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." ***Jim Stacy***

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

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. It seems illogical to pay more for wheels than a roof.
- Not always tied to function....a diamond can cost more than a computer. A diamond does nothing! There is emotional value. A computer is the door to the world. The small computers in our pockets can completely run a business! Yet, we shop for expensive diamonds with no function and look incessently for an inexpensive computer.
- Not in our control.... bad movies cost as much as good ones. The market eventually affects the value of movies and homes based on demand.
- Not just based on location...a view can be worth more than waterfront. The waterfront might include flooding or…?
- Not always fair... waste management employees often can earn more than teachers. The demand and expertise for the job can affect the salary.
- Not based on improvements... cologne up to a certain point is sensuous, but too much is nauseating. How much of the color orange do you want in the house?
- Not based on depreciation... a dull antique mirror can be worth more than a new clear one. The clear one is so practical and meets the needs of a good mirror. The antique one has historical charm so we look past the need for the clear one.

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

“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. Sometimes these comments can make you fee tongue tied. “What can I say?” We have to remember that even if they don’t say their concerns or objections the consumers are often thinking them!

> “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. No rules. A property is worth what a buyer decides and there is always a desireable substitute. What are those substitutes selling for in the market?

But Zillow says….

Computerized valuation is used constantly today. With the advances in Artificial Intelligence, the recording and availability of sales prices, and the transparency after transactions are closed, and the ability to predict value is changing.

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 was an amazing program able to estimate value on millions of homes on a regular basis. A 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. It is an estimate of value based on certain factors.

The consumer often relies on these computer valuations if they reflect what the consumer wants as the value of their property. Right now even with AI computer models can’t take into consideration the view, the financing options, the condition, the style and the social factors that have an effect on value.

Definition of Value

The definition of value in real estate:

The present worth of future benefits arising from the ownership of real property.

In order for anything in the world to have value, it must have certain characteristics! Someone has to want it, need it, have difficulty finding it, and challenges actually buying it! This is true for a Barbie doll or a Matchbox car…. or a single family house!

To have value in the real estate market, property must have these characteristics. Think of the acronym D.U.S.T. There is always dust in real estate!

- **Demand**. The need or desire for possession or ownership backed by the financial means to satisfy that need.
  A house or property has a higher value if there are many people that "want" it. The inventory of homes in the desired neighborhood may be low therefore the result is higher prices. Many people want waterfront, but if they don't have the means to purchase it, then it doesn't count as demand. That might just be reduced to "lust."

- **Utility.** The capacity to satisfy human needs and desires. Besides a the desire to own a property is a particular area and there are few available, the property must also meet the needs of the buyers. If the properties in the area have serious issues that affect the liveability, then the lack of utility reduces the value. It could be anything from environmental toxins to foundations failing.

- **Scarcity.** Reflects the theory of supply and demand. The more scarcity in relation to the demand results in an increase in value. If there is demand but plenty of properties to meet that demand, then there is no lack of scarcity. Often people will talk about a buyers or a seller's market. They are referring to the demand and the scarcity.

- **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. So many people can want a property, but if it is not available then it's value would reflect that. For example, the Mona Lisa has incredible value. Paintings in that category are scarce and people want to have famous art. But, it cannot be transferred to a ready willing buyer so any value placed on it is not necessarily the true value.

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, depreciated value, and emotional value.

The definition of ***market value*** of real estate is not simple. It requires the followin 5 factors.

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

The market value is an estimate of value based on an analysis of comparable sales and other pertinent market data. An estimate of market value is what other buyers have paid for similar propertyies in a similar market. The estimate of value must take into consideration the five factors listed.

Market Price

The 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. If the buyer is a relative, making low payments, has secret knowledge of a rezone, or other factors that affect the sale, then the price paid may not be an “arms length” transaction due to these kinds of influences.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 is Confidential

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 a 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 buyers want to know the motivation to determine how “low they might go” when making an offer.

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? Think about it. They might be moving up or down, bigger or smaller, closer or farther, or because of a trama, a financial problem, or a divorce, for example.

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.

No matter what market conditions exist,
there will always be clients that must buy buyers and sell.

3. Determining Property Value

Assessment

The official valuation of real property for tax purposes based on appraisals by local government officials. The real property taxes are called Ad Volerem taxes. In Washington State, the assessed value is supposed to be the fair market value. In many cases, this is not accurate. Remember to explain to homeowners that it is the value to determine taxes and it can be challenged with the county.

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. The property must be good collateral for the loan. 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.

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 unusual there is a challenging mrket or the property is very unique.

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.

When you complete a market analysis, you are held up to the standards of a competent broker if it is challenged in a court. Make sure you don't cut corners and make assumptions or have ineffective research on comparables.

Name three differences between a Market Analysis and an Appraisal.

Zillow and Trulia and other computer valuations

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.

Determining Value

The application of the three approaches results in three different estimates of value. In many cases more than one approach to valuse is used. The cost approach might be used for the replacement of a building and the market value approach for the land. The appraiser uses the approach that is most closely suited to the type of poperty.

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

Apartment building
Residential two story home
Retail strip mall
Vacation property on waterfront
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. A residence on Main Street may not be at it's highest and best use. A retail property for that zoning would result in a greater new income.

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? This is described in real estate often as a buyer's or seller's market.

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. Think of this in terms of dating! **There is always an equally desirable substitute!**

How do you explain the comparables used in an analysis? What is a 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. Change can include environmental changes fron erosion to economic changes like a zoning or interest rate change.

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. A house could have an extra bedroom in a converted garage, not built to code or is a legal ADU on the property. This can affect the property value to increase or decrease it.

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. The reason for the restrictions in a development is to avoid change and differences that could negatively impact the value in the neighborhood. These can change. For example, in the past a wood shake roof was most desireable, but over time it became almost a hazard and the restrictions in many neighborhoods had to change.

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.

The buyer should really do research if there is any chance there are changes that could affect the property.

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. Some improvements add the cost directly to the value. Some improvements do not add anything to the value but might make it more desireable.

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.

Does the addition of a swimming pool always 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. A property can look fabulous on paper and in photos. Imagine your own buying experience purchasing shoes, clothes, or even a tool online. It may have value. It may seem like a good deal. But, if it is missingone of these principles like the principle of subsitution, you find that even a good deal may not have been one.

There is always an equally desirable substitute.

6. Evaluating Property Condition

The condition of a property affects the value in a drastic way. Hidden defects, whether known or found often put the parties back at the negotiating table. 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.

Both Buyers and Sellers are worried the other party is hiding something.

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 Agency Law was changed in Jan 2024 to state that agents owe the duty of good faith and honesty to all parties in the transaction. This was due to a precedent setting lawsuit where plaintiff claimed that the duties only extended to who the agent was representing.

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.

**It is not always the questions where a client is unsure of the answer,
but the questions that the parties 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 structure and environmental factors that should be disclosed including

Mold Issues	Power lines
Underground Storage Tanks	Cell towers
Asbestos in ceilings, insulation, floors and siding	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?
Pest problems	Any leaking of water anywhere.

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!

When a buyer finds defects in the property that were not disclosed or even discovered prior to closing, they are referred to as latent defects.

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 woud cost to replace it.

All properties have a tendency to depreciate over time when the value of the existing structure and the cost to improve it is extreme.

There are three forms of depreciation.

Physical Deterioration

Over time improvements experience deterioration. Often, if the deterioration can be cured by imporovements, 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.

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. Sometimes they can be cured.
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.

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.
Cars can be considered old and ecomomically obsolenscent. But if they are classics, their value goes beyond. They may not be street ready!

What form of depreciation is found in the following examples?

The entrance to the family room is through the bedroom.	The county has downzoned the area.
There is no garage	The adjoining street becomes an arterial
There is only one bedroom	The swimming poold is getting old
The foundation is substandard.	The zoning has changed to commercial

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 disclosure 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. For example, 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.

The 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?

9. 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. 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.

If the buyer finds problems that need repair, the inspection addendum lets the parties go back and negotiate.

The buyer is not to show or share the inspection report with the seller without permission. It creates liability for the seller in a possible future sale. The seller may not agree with the problems identified by the inspector. Read the inspection clauses carefully when dealing with inspections that result in possible repairs or further inspections.

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? Planted, built in?

Intention of the annexor: What was the intention? To have it remain? Is it only viable in this house?

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?

When there is a dispute in real vs. personal property, it is often not as clear as whether a screwdriver might have to be employed, a tester for wiring, or walls must be cut into.

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)

Should personal property be included in a market analysis report when determining value? No.. only real property

If there is an item of personal property on the listing, is it automatically included in the sale if not written in the purchase and sale agreement?

When is the hot tub a fixture? There is no definite answer.. if it is wanted, the buyer needs to include in the agreements.

What about prize rose bushes? They are a fixture unless the seller digs them up prior to selling.

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

10. A Market Analysis Report

- Describe the subject property. Is there information you need that you do not have?
- Where else can you obtain information on the subject property?
- Order a property profile on the property from the title company.
- Is the profile of the property from the Title Company and county records correct?
- Copy a map and plot the comparables.
- Explain the use of active, pending and expired listings as well as sales.
- Choose three comparables from each type of listing and explain why they were chosen.
- Estimate the value of the subject property. Did you come with a range or an exact price?
- What market statistics can help the seller understand the market?
- 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.
Closed Sales, Active Listings, Expired listings, and properties where the listing was cancelled. Comparables must be Arms Length Transactions.

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. The seller determines the price the property lists for on the open market. The buyer determines what they think of as value. The seller chooses whether or not to accept the buyers offer. 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 Brokers 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. This includes brokers at lunch around a table or at a real estate regional conference.

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 firms and not directly to the brokers. The broker 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.

13.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, other properties could become competition, and the sellers may not be able to sell due to financial constraints.

Know that you are in an agency relationship. You are creating a confidential report that should not be public knowledge without the express permission of the customer. You should have a brokerage agreement signed by the seller.

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. Discuss this with your designated broker.

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. Brokers have been taken at their word for casual value estimates.

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?

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.

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.

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 natural 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 sale 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 from the transaction prior to closing.
32. T / F ___The Property Information Disclosure form is to be filled out by the broker.

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.

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.

Answer Sheet… What is a Home Worth?

1		31	
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I attest that I have read the materials and have answered the questions.

Date Course Started ______________ Date Course Completed ____________________

Print Name________________Company _______________ Signature____________________

PROFESSIONAL Direction **Email: clockhours@gmail.com**

Mandatory Evaluation

You can mail by US Mail the paperwork and tuition or Scan
Did you read the material in the booklet on this date? YES / NO
Did you complete the quiz for the course? YES / NO
Did you pay Tuition? YES / NO
Did you attach the answer sheet for the quiz? YES / NO
Why did you choose to take this course? Topic? Time? Cost? Ease? Other?
A "clock hour" is 50 minutes. A 5 hour class should take near 4hr 10 min to take. How long did it take you to complete the course? _________

Will the material you learned improve your performance?	
Were the course materials easy to follow?	
Were the course materials relevant to your profession?	
Were your objectives met by attending the class?	
Was the course material interesting?	

What are 3 things that you learned from the course?
1.
2.
3.

Would you take another correspondence course from Professional Direction? Yes/ No

What is a Home Worth	
Print Name	Signature
Company	Address home_____ or work _____ check one
City / Zip Code	Phone
Email	
License Renewal Date	Date(s) Class taken

Thanks for taking this class! I really appreciate the brokers that take clockhours from my school!

Natalie Danielson **Professional Direction** **www.clockhours.com** **email: clockhours@gmail.com**

