



How to Value your Home

What is a CMA?

In Economics, “value” is defined as “the maximum price that a decision-maker is willing to pay to obtain a good.” In other words, something is worth what someone is willing to pay for it. However, before you give someone the opportunity to place an offer on your property, you want to establish a guideline. You have to come up with a number that feels right, and at the same time, establishes a realistic starting point. Establishing that initial price tag or “value” requires careful research combined with educated guesswork. Let’s explore one of the most popular ways to best establish that initial value.

A Comparative Market Analyses or CMA

By far the most commonly used method is to contact a local licensed real estate professional and ask them to give you what is called a comparative Market Analyses or CMA. Most real estate agents will do this for free, as a service, with the prospect of earning your business. You have to understand that a CMA is just an *opinion*, but it will be in the ball park and give you that initial value you are looking for in order to help you set a price point.

Here is how it works

In large part, residential real estate values are established by comparables. When a property similar to yours sold for X amount, it can be assumed that your property will be worth approximately the same. So, in order to come up with a value, we pull comps (comparables) we are going to look at three segments of the market: closed comps, pending comps, and active comps. Let’s explore each one;

Closed Comps

Closed comps are the ones that carry the brunt of the weight in a CMA. They are established, recorded history. It is important to find as many comparable properties as close to the subject property as possible that closed as recently as possible. Then through careful scrutiny, organize them in order of priority. The one that is closest in proximity and most comparable to the subject will carry the most weight.

Pending Comps

Next, establish a list of pendings in the same manner as with the closed comps. Pendings do not carry as much weight as closed comps because they have not yet happened, and it is not known if they are going to happen. Also the actual sale price is unknown until it is recorded and becomes public record. The reason pendings are important is twofold; First, they give you an idea of where the market is going. For example, if the pendings are lower in price then the closed comps you could assume that the market is trending downward and vice versa. Secondly, the pendings will soon become closed comps.

Active comps

I study active comps to learn about what is not selling. I look for comparable properties that have been on the market longer than average, for clues that tell me why they are not selling. Some need renovation, some back up to major streets and so forth. I’m particularly interested in the ones where I find nothing

wrong because they indicate that the price is what is wrong. This gives me an idea of what price is too high.

It is important to know that we are primarily concerned with comparable properties in the same subdivision as where the subject property is located, with the same square footage and amenities and ideally, the same floor plan. If we can't find anything within the same subdivision we can venture out to find the next best thing possible.

Now that we are armed with all this new information it should be fairly easy to establish an initial sale price. Keep in mind that *value* is subjective, and it is okay to apply some guess work. As you proceed further down the pipeline, after accepting an offer, the buyer's lender will order a formal appraisal.

The number that appraiser comes up with is mostly the number the lender's underwriter will approve (there are exceptions). If both you and the buyer still agree to move forward with the sale, the appraised value becomes the official value of your property at the moment the sale is recorded. In turn, you are a closed comp.

If this method is not satisfactory to you or if your property is so unique as to where it is practically impossible to find comparable properties, it is recommended you hire an appraiser and get a formal appraisal.

Formal Appraisal

Appraisal is defined as follows: "An estimate of the market value of a piece of property by a qualified appraiser." An appraiser is the professional who can best give you an accurate estimate. Keep in mind that when a property is appraised by three different appraisers, most likely three different values will result. If money is not an issue, and you want to be as accurate as possible, get two appraisals. If they come in within 10% of each other, average them out and you are good to go. If however, they do not come in within 10% of each other you need to get a third appraisal and average out all three. Be aware that appraisals can be pricy. At the time of this writing the average price for an appraisal is about \$300 to \$450.

When you are ready to sell your property and you have established your initial value, it makes good sense to test the market. Put your property for sale at a price slightly higher than what you think is acceptable, you never know.

Good luck!

Dimitri Larno
Associate Broker - Realtor®
c. 602-524-1487 e. azbigdeal@gmail.com
To learn more visit <http://dilarno.com>

As an investor himself, as well as a licensed Realtor®, Dimitri has over a decade of real estate experience. Dimitri's specialties include primary residences, second homes, investment properties, commercial properties and land. He has been recognized for being a Multi-million Dollar Producer, and is an accomplished Realtor® committed to superior results for his clients.

"Strive not to be a success but rather to be of value" *Albert Einstein*