



3 Ways to Value your Home

One of the worst mistakes sellers make is pricing their homes too high. Buyers are generally well educated and will not entertain an overpriced listing. After the property sits stagnant on the market, the seller will slowly wake up to reality and lower the asking price to a more realistic figure. The downside of this scenario is that, in the meantime, one has lost valuable marketing time.

The longer a listing sits on the market, the less attention it gets. The lesson here is - price your home accurately from the start! To help you determine that value, you can use one of three commonly used valuation methods: a Comparative Market Analysis or "CMA," a Broker Price Opinion or "BPO," also called a Broker Opinion of Value, and a Formal Appraisal, performed by a licensed and certified real estate appraiser.

Before we get into the details of each one of the valuation methods, let's talk a little more about the different types of values.

Market Value

The Uniform Standard of Professional Appraisal Practice (USPAP) defines market value as the most probable price that a property should sell for in a competitive and open market. This assumes all conditions for a fair sale are present and that the buyer and seller are of sound mind.

As-Is Value

Generally, the as-is value is defined as the value of the subject property as it presently exists without repairs or improvements. The as-is value should reflect the subject property's current condition.

As-Repaired Value

Usually, the as-repaired value is defined as the value the subject property would sell for if the subject property is in move-in, ready condition, but not overly improved for the neighborhood.

Quick-Sale-Value

The quick-sale value is defined as the value the subject property would sell for under liquidation, or forced-sale type terms. The quick-sale value commonly assumes limited exposure to the open market, and restrictive conditions of sale.

1. Comparative Market Analysis CMA

A CMA is a comparison of the prices of similar houses in the same general geographical area, typically, a one mile radius. Usually, MLS data and tax records are used to conduct the research. It includes: 1) closed sales - properties that have sold and closed within the last 6 months, 2) active listings - properties currently for sale, 3) pending sales - listings that are under contract but have not yet closed, and, 4) expired listings - properties that did not sell during the marketing period. After thoroughly analyzing this information, a probable sale price is suggested.

Because the price derived from a CMA is somewhat subjective, the outcome generally results in a price range rather than a definite number. Most agents will conduct a CMA without physically visiting the property. In general, a CMA prepared by an experienced agent with good knowledge of the local market is right in line with your home's appraised market value. A CMA can therefore be a very useful tool. Most agents offer this service free of charge as a promotional means to earn you business.

2. Broker Price Opinion BPO (also Broker Opinion of Value)

A Broker Price Opinion is when a real estate agent or broker will do a valuation on a property similar to an appraisal. There are two types of BPOs: an exterior or drive-by, and an interior or full BPO. For our purposes, I will focus on the interior or full BPO, since this is most comprehensive and most valuable to a seller.

The Broker Price Opinion has been a popular tool used by lenders and mortgage companies to value properties in situations where they believe the expense of an appraisal is not necessary. A BPO goes into much greater detail than a CMA; the specific purpose of the BPO as set forth by the client will dictate much of what the agent focuses on. In addition to the work performed in a CMA, the agent will generally conduct a full inspection of the property and make a list of defects and recommend any necessary repairs. A detailed commentary of any material matters will be included.

Photos of the interior and exterior are taken and included in the report. Three recently sold comparables and three active listings are used to determine the value of the subject property, adjustments are made if necessary. The cost of a full interior BPO ranges from \$85.00 to \$165.00, depending on the detail wanted by the client. Commonly, listings agents will charge for this service but in some cases, might credit the fee back to the client at a successful close of escrow.

3. Formal Appraisal

A formal appraisal is by far the most detailed valuation tool used to determine the value of a property. Appraisals are most often reported on a standardized form, and only licensed and certified real estate appraisers can perform an appraisal. Licensed appraisers are trained to be able to appraise real property in a variety of ways;

The sales Comparison Approach (same as a CMA or PBO) is by far the most common, where comparable properties are used to determine the subject's value.

The Income Approach: this method is most commonly used to value income producing properties such as offices and apartment buildings. In some cases, depending on the client's requirements and/or the specific type of property, appraisers may use a combination of both the sales comparison approach and income approach to determine value.

The Replacement Approach: this method is most commonly used on new-built homes, where there are no established comparables, on homes built with unique materials of which no comparables exist, or, in case of, let's say, a fire, where there is nothing left to compare.

The cost of a formal residential appraisal usually ranges from \$300.00 to \$450.00.

4. Conclusion

The reason to hire a professional to value your property is to obtain accuracy. It is strongly advised to start out with a realistic price tag, and in order to do so, a seller needs to obtain an accurate estimate of what the subject property is worth. This will set the tone for a smooth and productive marketing and sales process.

Good luck!

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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