STUDENT MANUAL

PRICING STRATEGIES: Mastering the CMA

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Welcome

NAR is pleased to welcome you to today's course on pricing properties, CMAs, and the role of agents in the valuation process. Please take advantage of this opportunity to engage in the subject matter, ask questions, and share your experiences and opinions. You all have something to learn and something to contribute.

Instructor and Student Introductions

About This Course

The 21st century has so far presented multiple challenges to the real estate industry, notably a housing boom and rising property values in the early 2000s, followed by economic decline, mortgage defaults, and a very unsettled market place that has only recently begun to stabilize. Determining property values depends more than ever on professional expertise and competence, the best use of technology, and a commitment to approaching the pricing assignment from all pertinent perspectives.

This course is specifically designed to help residential real estate agents and brokers enhance their skills in pricing properties, creating CMAs, working with appraisers, and guiding clients through the anxieties and misperceptions they often have about home values.

How to Earn the Pricing Strategy Advisor (PSA) Certification

Be a member in good standing of the National Association of REALTORS®.

- Complete the Pricing Strategies: Mastering the CMA course and pass the exam.
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What You Will Learn

This course will discuss the following topics:

- **Module 1: Principles of Pricing**
  - What Is a CMA?
  - The Purpose of CMAs

  - Who Needs CMAs?
  - Valuation Language and Basic Principles
  - Pricing and the REALTOR® Code of Ethics
- **Module 2: Choosing Appropriate Comparables**
  - The Goal: Optimal Similarity to the Subject
  - Fundamental Principles for Choosing Comparables
  - Fannie Mae Guidance on Choosing Principles
  - Roadblocks to Choosing Comparables
  - Resources for Identifying Comparables and Analyzing Markets
- **Module 3: Preparing the CMA**
  - The Role of Supply and Demand in Pricing
  - Methods of Adjusting Comparables
  - Fannie Mae Guidance on Adjusting Comparables
  - Specific Considerations in Determining Adjustments
  - Potential Mistakes and Special Challenges in Making Adjustments
- **Module 4: Presenting the CMA**
  - What the CMA Report Contains
  - Guiding Clients through the CMA
- **Module 5: Working with Appraisers**
  - The Appraiser's Role and Responsibilities
  - Steps in Working with the Appraiser
  - How to Read an Appraisal Report
  - When a Property Appraises Below Offer Price
- **Module 6: Honing Your Pricing Habits**
  - Listening to the Market
  - Educating Clients
  - Revisiting Price
  - Legal and Ethical Requirements

At the conclusion of this course, students will be able to

- Select appropriate comparables and make accurate adjustments to them, for use in developing home price opinions
- Guide sellers and buyers through the details of CMAs and the underlying pricing principles that inform them
- Interact effectively with appraisers

Introduction Exercise

What challenges do you encounter in pricing discussions with buyers and sellers?

PRICING STRATEGIES:

Mastering the CMA

1. Principles of Pricing

Learning Objectives

At the conclusion of this Module, you will be able to

- Identify the purpose and benefits of CMAs
- Define key terms related to pricing
- Interpret Article 11 of the REALTOR® Code of Ethics as it relates to pricing properties

This Module looks at some of the important foundational concepts behind pricing properties, beginning with an overview of comparative market analyses. In addition to defining a CMA, we will define some other basic pricing terminology that will be used throughout the course. Finally, we will consider components of the REALTOR® Code of Ethics that relate directly to pricing properties.

What is a CMA?

A CMA is an estimate of the probable selling price of a property. The price typically is expressed as a range rather than a single quantity.

A CMA reflects the following information:

- An inspection of the subject property
- An analysis of the subject neighborhood
- An analysis of local and regional market information and trends
- A description of comparable properties that are similar to the subject property

In this course, we will touch on all these aspects of a CMA, paying particular attention to the critical task of identifying and analyzing comparable properties. A key principle of CMAs is that they are built on comparisons between the property being evaluated and other properties—both those recently sold and those on the market now—that are substantially similar to it. CMAs must be prepared by a licensed real estate broker, agent, or salesperson, or a registered, licensed, or certified appraiser.

Not the Same: CMAs and Appraisals

A CMA reflects a licensed real estate broker's analysis of similar, recently sold properties to derive an indication of the probable sales price of a particular property. It is not an appraisal and should not be referred to as one. Module 5 will have more to say about how appraisals compare with CMAs and how real estate agents work with appraisers.

A CMA is one of four main valuation services used in residential real estate transactions, as summarized below. Note that a CMA may be used for a variety of purposes. In this course, we focus on its purpose in buying and selling residential real estate.

Valuation Services Matrix

Valuation	Definition	Who	Use
CMA	An estimate of the probable selling price of a property	Real estate licensees	A CMA helps identify or project a house's listing or selling price. The CMA is not the only factor in determining listing price; rather, it is a guide for the owner to see the active and sold competition and is used to help the seller determine a listing price. The CMA can also be used, depending on state laws, for a variety of other purposes, including loan modifications, short sales and foreclosure/REO purchases, value trend analysis, mediation, and negotiation. It should not solely be used to value collateral in a real estate transaction where a mortgage is being originated.
Appraisal	As defined by the Uniform Standards of Professional Appraisal Practice, the act or process of developing an opinion of value	Licensed or certified appraisers	Generally used to value collateral in a real estate transaction. Appraisals are required for most federally related transactions above $250,000. Exceptions include transactions where no new money is involved. In practice, appraisals are used for the vast majority of purchase money transactions involving a loan. For the most part, lenders or servicers determine the use of appraisal or other methodology for transactions that are not purchase money.
Automated Valuation Model	Service or software that provides property valuations, often based on mathematical modeling	Lender, servicer appraisal staff, investor	Often used by lenders or secondary markets to confirm valuations provided in appraisal report, but should not solely be used to value collateral in a real estate transaction where a mortgage is being originated. May be used as a valuation option for other transactions, such as refinances. Also used to verify appraisal reports.
Broker Price Opinion	An estimate of the probable selling price of a property	Real estate licensees	May be used, depending on state laws, for a variety of purposes, including loan modifications, short sales and foreclosure/REO purchases, value trend analysis, mediation, and negotiation; should not solely be used to value collateral in a real estate transaction where a mortgage is being originated.*

Source: ***www.realtor.org/appraisal/valuation-services-matrix***

* Where permitted by states, BPOs and CMAs are technically permitted for purchase money transactions when the home is less than $250,000. However, CMAs are not typically used for this purpose. In June 1994, the federal regulators published a final rule that increases to $250,000 the threshold below which national banks are not required to obtain appraisals prepared by licensed or certified appraisers for real estate loans.

The Purpose of CMAs

The purpose of a CMA is to establish an accurate range of value for a property that a seller wishes to sell or a buyer wishes to buy. An accurate range is one that reflects market conditions at the time and place of the desired transaction.

Once an accurate property value range is determined, the further purpose of a CMA is to help sellers identify an asking price and buyers identify an offer price. In other words, a CMA provides an objective, market-driven starting point for pricing properties.

Who Needs CMAs?

Sellers, buyers, and real estate professionals all need and use CMAs. Let's take a closer look at the needs and motivations of each for using CMAs and the benefits they derive from CMAs.

Sellers

Every agent has a story (probably many stories!) of sellers who overestimated the value of their home. Many factors can contribute to this misperception of value. Sellers might hear exaggerated sales amounts for neighboring homes through local gossip. They might apply broad market trends and simplistic assumptions to come up with an unreasonably high value. They might believe they can recoup the cost of every home improvement they have made over the years. Perhaps above all, they are likely to attach a high value to their home based on their emotions and pride of ownership.

A CMA provides the data and reasoning to help sellers see not only what the value of their home is, but why that value is accurate. Sellers who can see and understand the objective logic for valuing their home are more likely to list their home at an accurate price for its market. As a result, they are also more likely to sell their home quickly and efficiently. Owners who are able to sell promptly avoid much of the stress and disruption of repeated showings of their homes. If they are under pressure to move—for example, to follow a job or downsize to a more affordable home—an efficient sale saves them further anxiety.

By the way, sellers are sometimes prone to undervalue their property—such as when an estate is interested in selling a home quickly to distribute the proceeds. A CMA helps protect sellers against undervaluing as well as overvaluing a home.

Buyers

Buyers are often at a great disadvantage in knowing the market value of a home on which they want to make an offer. If they are first-time homebuyers, they might be especially naïve about the many variables that affect the market. If they are moving to a different location—even if just to a bordering town—they could be unaware of local trends that differ significantly from those of their current neighborhood.

A CMA allows buyers to make offers based on objective data relevant to the specific market. Buyers are less likely to make a lowball offer in a competitive market, potentially losing the home to another buyer. They are less likely to make a too-high offer that eventually is scuttled because a lender won't offer a mortgage at that price. And they are less likely to overpay for a home, thus freeing up their financial resources for other important life expenses.

Agents

To serve the best interests of their buyer and seller clients, real estate agents need CMAs.

A well-researched CMA is a listing agent's greatest tool in pricing a home appropriately. A listing that is properly priced is more likely to sell quickly and efficiently. A listing that is overpriced will not be competitive in its market and will more likely languish without offers. Overpriced, unsold listings are efficiency- and income-killers for agents. And they don't generate warm feelings or recommendations from clients.

Complaints about incorrect pricing are among the top legal claims made against real estate professionals. When buyers feel they have overpaid or sellers feel they have undersold in property transactions, they are apt to feel resentful, angry, and cheated, and are likely to blame the professionals who guided them, including their real estate agent.

Are you acting as a disclosed dual agent in a transaction? Requirements are state-specific, but if you prepare a CMA for the seller while acting as a disclosed dual agent, you should also do so for the buyer. Not doing so puts the buyer at a disadvantage.

Advantages of CMAs for…

Sellers	Sellers receive a fact-based, objective assessment of their home's value Sellers don't experience the stress and disruption that can occur when homes languish on the market. Sellers are protected from undervaluing their home, to their financial disadvantage. Sellers avoid the delay that occurs when they accept a high offer and the property does not appraise.
Buyers	Buyers receive fact-based, objective information about homes where they might not be familiar with the local market. Buyers are less likely to lose the home they really want because their offer is too low. Buyers are less likely to encounter problems obtaining a mortgage because the house appraises below offer price. Buyers are less likely to overpay for a home, thus preserving financial resources for other important home and life expenses.
Agents	Listings don't languish, sapping agents' time, energy, and income. Clients are less likely to feel resentful about—and blame the agent for—the price they paid or received. Clients are more likely to be satisfied and recommend the agent's services to others.

Valuation Language and Basic Principles

Before exploring more closely the process of researching, preparing, and presenting CMAs, it is important to understand some basic terms and concepts of valuation.

- **Subject**
  The property being evaluated.

- **Comparable**
  A recently sold property that is substantially similar to the subject. Comparables are used as a basis for determining the value of the subject. The term comp is often used as an abbreviated version of the term comparable.

- **Competition**
  A currently listed property that can compete for the likely buyers of a given subject.

- **Adjustment**
  The amount added to or subtracted from the sales price of a comparable property to arrive at an indicated value for the subject property. Not all comparables require adjustments. Module 3 has much more to say about when adjustments are needed and how to make them.

- **Neighborhood**
  A loosely defined geographical location within a city, town, or suburb. A neighborhood often consists of social communities with considerable face-to-face interaction among their members. Neighborhoods are important because prices vary considerably in different neighborhoods.

- **Cost**
  The total amount spent to acquire or build a property or property component. A cost is a historic quantity and does not vary over time.

- **Price**
  The amount for which a specific property sold at a particular point in time, or at which a property is currently being marketed. Price might or might not reflect market value.

- **Market value**
  The most likely price a property should sell for in a competitive and open market, where both buyer and seller act prudently and

knowledgeably and neither is under any undue duress to complete the transaction, and where the property has been exposed to the open market for a reasonable time. The market value is also referred to as the fair market value or fair market price.

Cost, Price, and Value

The terms cost, price, and value are often used interchangeably—and incorrectly so. Consider sellers, who often think that maintenance costs should contribute dollar for dollar to the price of their home; this is an example of confusing *cost* with *value*. For example, if sellers recently installed a new roof that cost them $15,000, they might expect this improvement to boost the value of the home by $15,000. But roofs are among the minimum requirements for a house: A buyer expects the home to have one, and not all of the maintenance cost can be recouped in the sale price. All other things being equal, a home with a new roof would have a higher value than a home with an older roof—but probably not the full cost of the new roof.

Market Value According to Fannie Mae

Fannie Mae (the Federal National Mortgage Association) is a congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds. Fannie Mae's definition of market value is a bit more formal than the definition provided previously, and worth considering:

Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- *buyer and seller are typically motivated;*
- *both parties are well informed or well advised, and each acting in what he or she considers his/her own best interest;*
- *a reasonable time is allowed for exposure in the open market;*
- *payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*

the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale

We will see the significance of some aspects of Fannie Mae's definition later in the course as we consider specific pricing situations.

Pricing and the REALTOR® Code of Ethics

To describe their roles and responsibilities, real estate practitioners can find no better resource than the Code of Ethics developed by NAR. Article 11 focuses on the real estate agent's role and responsibilities in listing properties, advertising, representing a seller or buyer, and concluding transactions. Article 11 also speaks to the issue of a real estate professional's responsibilities when preparing an opinion of property value or price.

What the Code Says

Article 11 reads:

The services which REALTORS® provide to their clients and customers shall conform to the standards of practice and competence which are reasonably expected in the specific real estate disciplines in which they engage; specifically, residential real estate brokerage, real property management, commercial and industrial real estate brokerage, land brokerage, real estate appraisal, real estate counseling, real estate syndication, real estate auction, and international real estate.

REALTORS® shall not undertake to provide specialized professional services concerning a type of property or service that is outside their field of competence unless they engage the assistance of one who is competent on such types of property or service, or unless the facts are fully disclosed to the client. Any persons engaged to provide such assistance shall be so identified to the client and their contribution to the assignment should be set forth. (Amended 1/10)

Standard of Practice 11-1 reads:

When REALTORS® prepare opinions of real property value or price they must:

1) be knowledgeable about the type of property being valued,

2) have access to the information and resources necessary to formulate an accurate opinion, and

3) be familiar with the area where the subject property is located

unless lack of any of these is disclosed to the party requesting the opinion in advance.

When an opinion of value or price is prepared other than in pursuit of a listing or to assist a potential purchaser in formulating a purchase offer, the opinion shall include the following unless the party requesting the opinion requires a specific type of report or different data set:

1) identification of the subject property

2) date prepared

3) defined value or price

4) limiting conditions, including statements of purpose(s) and intended user(s)

5) *any present or contemplated interest, including the possibility of representing the seller/landlord or buyers/tenants*

6) *basis for the opinion, including applicable market data*

7) if the opinion is not an appraisal, a statement to that effect

8) disclosure of whether and when a physical inspection of the property's exterior was conducted

9) disclosure of whether and when a physical inspection of the property's interior was conducted

10) disclosure of whether the REALTOR® has any conflicts of interest (Amended 1/14)

Standard of Practice 11-2 reads:

The obligations of the Code of Ethics in respect of real estate disciplines other than appraisal shall be interpreted and applied in accordance with the standards of competence and practice which clients and the public reasonably require to protect their rights and interests considering the complexity of the transaction, the availability of expert assistance, and, *where the REALTOR® is an agent or subagent, the obligations of a fiduciary. (Adopted 1/95)*

Value or Price?

Article 11 and its Standards of Practice use the terms value and price to mean the same thing. But you should be aware that among real estate professionals and in different states, these terms are sometimes used to refer to different practitioners and tasks. The terms value and valuation sometimes are reserved to pertain to appraisals and the work of appraisers, whereas pricing pertains to CMAs, listing prices, and the work of real estate brokers and agents. In some states, agents are able to value (they are allowed to perform BPOs), and in some states, they can do an appraisal.

For the rest of this course, we generally will use the terms price and pricing to refer to the work of real estate agents preparing value opinions for their clients.

Interpreting the Code: The Importance of Competency

The Article and Standards make clear in a number of ways that REALTORS® must be competent in preparing opinions of price. Competency is gained through experience and affiliation with another REALTOR® who has experience and knowledge. No one comes into the business competent. We all find ourselves involved in "new waters" doing things in real estate we have not done before. However, agents must recognize when the level of competence required is beyond their abilities, and act accordingly.

Specifically, according to Standard of Practice 11-1, REALTORS® must:

"…be knowledgeable about the type of property being valued."
Many agents have experience in pricing residential property, but not complex commercial or special purpose property. As a more specific example, consider an agent whose business is entirely focused on high-rise condominium units. This professional will be at a distinct disadvantage in attempting to form a price opinion on a single-family home. Agents should ask themselves, "Do I understand this segment of the market and how it behaves?"

"… have access to the information and resources necessary to formulate an accurate opinion."
The agent must be able to consult relevant resources in forming an opinion about property price, such as the MLS and public records. Agents should ask themselves, "What types of data and information are required to price this property, and do I have access to that data and information?"

"…be familiar with the area where the subject property is located."
This requirement speaks to the need for geographic competence, the agent's knowledge of the marketplace in which the property is located. Each geographic market has its own quirks and nuances, and agents can easily find themselves out of their area of competence. Agents should ask themselves, "Do I have geographic competency in this area?"

If a REALTOR® lacks any of the preceding aspects of competence, he or she must disclose this in advance to the buyer or seller who is requesting the price opinion. The buyer or seller can then make an informed decision about whether to have the REALTOR® proceed with the opinion.

Note that Article 11 states that REALTORS® can "engage the assistance of one who is competent" when they undertake to provide services outside their own field of competence. In a situation like this, the REALTOR® must also identify the person(s) so engaged and their specific contribution to the client.

Consider, for example, an agent who is asked to list and price a commercial property, but his focus has always been residential. The sellers know the agent personally and want him to represent them. Fortunately for our agent, he works in a large company with a commercial division. He will seek the assistance of a commercial practitioner—and expect to pay for that assistance, either in a split commission or a referral fee.

Finally, note that Standard of Practice 11-1 lists the specific information that must be included in a pricing opinion when "an opinion of value or price is prepared other than in pursuit of a listing or to assist a potential purchaser in formulating a purchase offer." This course focuses on pricing properties within the context of listing a property or preparing a purchase offer, but property owners ask for price opinions for many other reasons, as well. For example:

- The sellers are getting a divorce, and it is amicable (so far). One party wants to buy the other one out, so they need a price for the house.

- The property is an estate, and the family might keep it—they want a price.
- A consumer is questioning the assessed value on his home, used to calculate property taxes. In his location, assessed value is supposed to be the market value of the property, so he wants a price.

The Code is very specific about what information must be included in your report for cases like these. And the competency requirements are just as relevant in these situations as any other.

Exercise 1.1: Is Agent Alex Competent to Develop This Price Opinion?

Alex is a residential agent in a fairly large city. He concentrates on the north side of this city because he lives there and his office is there. He prospects in several residential subdivisions on the north side of town. For each of the following scenarios, explain why Alex is or is not competent to develop the price opinion. If he is not competent, describe what assistance—if any—he might enlist to undertake a price opinion for the scenario.

Scenario #1

Alex is asked to price a property in one of the residential subdivisions where he is very active and regularly prospects for new business.

Scenario #2

Alex has a good friend on the south side of the city who asks for his help in pricing his home to sell. Alex is not familiar with the south side, but his MLS encompasses it. His large company has a branch office on the south side, and he knows many of the agents in that office.

Scenario #3

Alex has a good friend who owns a recreational property 3 hours away, on a lake. The friend wants to know a price at which to sell it. Alex has been to the cabin one time on a fishing trip. At a state convention, Alex talked to a REALTOR® who specializes in recreational property in that part of the state. This REALTOR® told him, “It’s a very unusual market. Each lake community has its own set of values and prices. Which side of the lake you are on makes a difference, as well as how deep the water is near your cabin.”

PRICING STRATEGIES:

Mastering the CMA

2: Choosing Appropriate Comparables

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Learning Objectives

At the conclusion of this Module, you will be able to:

- Recognize appropriate criteria, resources, and guidance in choosing comparables
- Identify causes of imperfect information and its consequences with respect to pricing properties
- Use appropriate comparables in a CMA

A critical component of preparing a CMA is selecting appropriate comparables. This Module looks at characteristics and criteria you will use to match comparables as closely as possible with the subject property. We will consider Fannie Mae guidance on selecting comparables in particular. Module 2 also covers both roadblocks to and tools for identifying comparables.

The Goal: Optimal Similarity to the Subject

The general parameters for choosing comparables are determined by the subject home. The subject’s number of bedrooms and bathrooms, the size of its living space and lot, the neighborhood and school district(s) in which it is located, its age and condition—all these characteristics form the parameters for choosing comparables.

Of course, a comparable is never perfectly similar to the subject. But a central goal in preparing a CMA is identifying comparables that are as similar as possible—physically, functionally, and geographically—to the subject. The more similar the comparable, the fewer adjustments you will need to make and the more accurately you can determine the value of the subject and price it correctly.

Characteristics of Comparables

Agents preparing CMAs must consider a variety of characteristics in identifying potential comparables, including:

- Date of sale of the property

- Location
- Size
- Amenities (e.g., pool, security system, fenced yard)
- Floor plan or style
- Age
- Number of bedrooms and baths
- Garage size
- Improvements (e.g., additions, new roof, new appliances, cosmetics)
- Potential negatives (e.g., busy street, near business/industrial)

Of these, date of sale, location, and size are the most important.

Agents also must aim for an adequate number of comparables to consider in forming their price opinion. Let's look at several of these characteristics in more detail.

Date of Sale

A comparable should reflect a recent date of sale relative to the time of the subject CMA. A general guideline is that a comparable's date of sale should fall within 90 days of CMA research. Markets can change rapidly, and an interval of longer than 90 days might mean you are no longer comparing "apples to apples."

This guideline is sometimes shifted to a longer interval for a variety of reasons. For example, in slow markets, finding an adequate number of similar properties that have sold within 90 days can be difficult. When agents are unable to identify comparables that are sufficiently similar in terms of function, size, amenities, or location, they might expand the date of sale interval to include more candidates for comparables. At the outside, agents usually try to choose comparables with sales dates within 6 months of the subject CMA.

Location

Comparables should be as geographically similar to the subject as possible. This might seem obvious, but in practice location similarity can vary widely:

In a densely populated urban area, location similarity might mean that all the comparables for a high-rise condominium unit should come from within the same building.

In a suburban neighborhood, location similarity might mean that comparables should be within the same development as the subject, if possible, or at least within a mile of it.

In an expansive, sparsely populated rural community, location similarity might mean that comparables can occur anywhere within a township border—or even beyond.

Other features of location (e.g., proximity to a particular school district, public transportation, or an industrial area) can qualify or disqualify a property as being similar to the subject.

Following is a guideline to follow when selecting comparables with respect to the location of the subject property:

Suburban

- **Same subdivision or neighborhood**
- **Same school if schools are a force in your market**
- **1-mile radius if possible**

City

- **Condo—same complex or building**
- **½-mile radius if possible**

Rural

- **5-mile radius if possible**
- **If not possible, stay within the area as buyers define it (e.g., a school district)**

As with date of sale, agents sometimes expand the location in which they are searching for comparables when they have difficulty finding properties that match the subject in terms of other criteria.

Size

Comparables should be the same size, or close to the same size, as the subject, in terms of both living area and lot size.

Micro Markets

Some housing markets are so specific that they are referred to as micro markets. For example, in Sullivan County, Pennsylvania (population 6,000), there is a remote, upscale, second-home town called Eagles Mere that is a micro market. Micro markets exist in every marketplace—you can probably think of a similar example in or near the area where you work.

In the case of a micro market, expanding the area in which to look for comparables won't work; the micro market is too specific and narrowly defined. Instead, it is necessary to use comps from the same town, no matter how old they are, and adjust them for time.

Amenities

Comparables should reflect the amenities or features of the subject as closely as possible. This is a broad category for comparing properties—everything from lofts to finished basements, soaker tubs to swimming pools, fireplaces to patios, and security systems to solar panels. Finding a comparable that exactly matches the subject in terms of amenities is unlikely—again, the goal is to identify comparables that are as similar as possible.

Some amenities are sensitive to changing demands and tastes, and their value to typical buyers varies from market to market. When you consider the importance of an amenity in pricing a property, you must think about whether it is "hot or not."

Exercise 2.1: Amenities in Your Market

1. For your market, what are three amenities that are trending upward in popularity?

2. For your market, what are three amenities that were once popular but are now in decline?

Improvements

Comparables should match the same improvements as the subject, as closely as possible. Improvements can range from required maintenance to style updates to additions. If the subject has a brand-new kitchen and the only comparables you can find have 20-year-old kitchens, you will need to adjust the comparables.

An improvement might be an over-improvement, depending on the market where it is located and the probable buyer. For example, expanding a one-car garage to a three-car garage could be an improvement in a suburban neighborhood populated by families with growing children. Or it could be an over-improvement in an urban center that is well-served by public transportation and populated by young singles or couples who prefer not to own automobiles.

Exercise 2.2: Improvements in Your Market

1. In your market, what are three types of improvements that typical buyers value?

2. In your market, what are three types of over-improvements?

Number of Comparables

How many comparables should you identify for your CMA research? The answer is a range: from at least three to as many as you can find that are appropriate to the subject.

Unsold listings that are similar to the subject—that is, competing properties—are often included in CMA reports, and many lenders ask for them in appraisals. In a market with a large supply of competing properties, the CMA report should have a section in it where the agent includes the competition to impress upon the sellers what they are up against. Recently sold comparables provide definitive data, and recently listed competition helps the seller recognize and respect the homes contending for the same buyers.

In some markets, the number of appropriate comparables can be quite high—and therefore daunting to analyze. Later in this Module, we will look at tools, such as the REALTORS® Property Resource that can help with this task.

In some markets, it can be difficult to find enough (or any) comparables. An extreme case of this is a unique home like a geodesic dome or pyramid. But there are more mundane instances as well, such as in volatile markets—rapidly gentrifying or declining, for example. Situations like this might require expanding the criteria for what constitutes a comparable. It might be necessary to look at similar properties that are quite geographically distant from the subject or that sold years earlier, rather than days or months earlier. Then, appropriate adjustments must be made to the comparables.

Fundamental Principles for Choosing Comparables

So far, we have seen that a critical goal in choosing comparables is to identify those that are as similar as possible to the subject. We will now consider several fundamental principles that also factor into this task.

Highest and Best Use

The concept of highest and best use is fundamental in pricing properties. The highest and best use is the reasonable and probable use of a property that will support the highest present value of the land. A mnemonic to remember the conditions for highest and best use is PLEM.

Physically possible

Legally permissible

Economically feasible

Maximally productive

The highest and best use of the subject might not be the current use. Sometimes the highest and best use of a residential property is to remove the structure and redevelop the land. For example:

A small, older, poorly maintained home in a neighborhood that has experienced a significant number of teardowns and construction of newer “McMansion” homes—The highest and best use for the subject could well be to raze the structure and build a new, larger home on the land.

A single-family residential property on a multiple-acre lot in an area of increasing population density—The highest and best use of the subject could be to remove the single-family home and develop apartment or condominium buildings on the land instead, zoning permitting.

Knowing the most current zoning information for the property is critical in determining its highest and best use. Zoning ordinances can change, and what was once residential-only might now be commercial also. An agent who does not have the correct zoning information can make a big mistake in estimating the worth of a property.

Determining that the current use of a residential property is not highest and best—and what it should be instead—can be a challenging task. An agent who is out of his or her competence zone should seek expert advice in making this determination.

Arm’s-Length Transactions

An arm’s-length transaction is one in which both buyer and seller act willingly and under no pressure, with knowledge of the present conditions and future potential of the property, and in which the property has been offered on the open market for a reasonable length of time and there are no unusual circumstances. An example of a transaction that violates the arm's-length criteria would be an estate sale in which the sellers sold the home at a price well below market value to close and disperse the proceeds quickly.

Some non-arm's-length transactions can be used—with appropriate adjustment—as comparables. Others should not be used under any circumstances. Examples of the latter include one spouse buying out the other in a divorce or one heir buying out other heirs to an estate. In these cases, not only are the parties related, but they already have an ownership interest in the property.

Distressed sales are considered to be non–arm's-length. The term *distressed sales* refers to foreclosures and short sales, selling at discounts of 15 to 20 percent from non-distressed market prices. This can exert a major negative impact on overall market prices. If distressed sales are an anomaly in the market, they should be avoided as comparables unless no other comps are available. However, when an area is overrun with these kinds of listings, investors often move in and *create* the market, successfully making low offers and driving down prices. If listings of distressed properties characterize the market, they can (and should) be used as comparables.

Fannie Mae Guidance on Choosing Comparables

Fannie Mae's guidance is addressed to appraisers, but real estate agents preparing CMAs are wise to apply this guidance also. Many lenders and underwriters follow Fannie Mae's guidance, so following it in your CMA increases the likelihood that your pricing recommendation will mesh seamlessly with the eventual formal appraisal of the subject—a happy conclusion for all involved in the transaction. You can think of Fannie Mae's guidance as best practices that should inform your approach to choosing comparables.

What the Guidance Says[1]

Selection of Comparable Sales

The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the

[1] *Selling Guide: Fannie Mae Single Family*, 06/30/2105. B4-1.3-08: Comparable Sales [04/15/2014] www.fanniemae.com/content /guide/selling/b4/1.3/08.

appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s).

Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible. Sale activity from within the neighborhood is the best indicator of value for properties in that neighborhood as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

Fannie Mae does allow for the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser's analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist. The appraiser must also provide an explanation as to why he or she used the specific comparable sales in the appraisal report and include a discussion of how a competing neighborhood is comparable to the subject neighborhood.

If a property is located in an area in which there is a shortage of truly comparable sales, either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood, the appraiser might need to use as comparable sales, properties that are not truly comparable to the subject property. In some situations, sales of properties that are not truly comparable may simply be the best available and the most appropriate for the appraiser's analysis. The use of such sales is acceptable as long as the appraiser adequately documents his or her analysis and explains why these sales were used.

Interpreting the Guidance

Several components of Fannie Mae's guidance should sound familiar to you based on the previous discussion of choosing comparables in this Module.

- Comparables do not need to be identical to the subject but should be as similar as possible (similar physical and legal characteristics).
- Comparables should appeal to the same probable buyers (market participants) as the subject.
- If a chosen comparable is significantly different from the subject, it is necessary to adjust its price to reflect the differences (consider these factors in the market value),
- Comparables should come from within the same neighborhood as the subject whenever possible. But this guideline is flexible if the best comparables available are in competing neighborhoods.

If true comparables cannot be found at all for the subject, it might be necessary to use very different properties as comparables.

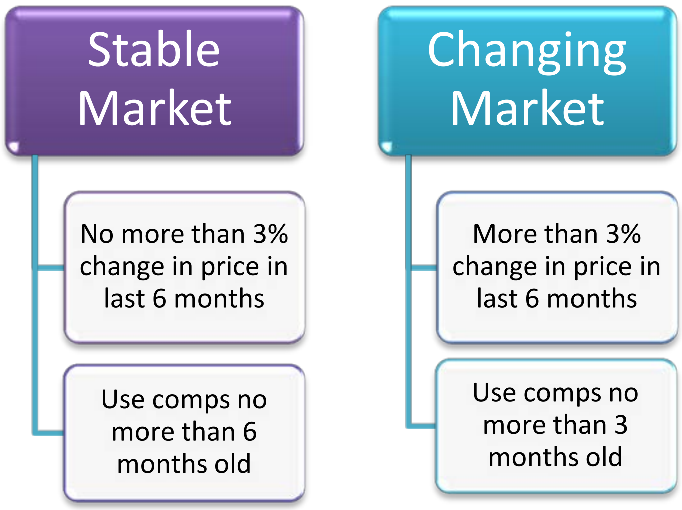
Roadblocks to Choosing Comparables: Imperfect Information

Selecting comparables can pose challenges for a variety of reasons. The common thread among these reasons is that information available about comparable properties is imperfect or missing from the usual sources that agents consult.

- **Wrong or misleading information in databases**
  For example, some aggregation sites are not always up to date, showing properties as listed for sales that have already closed. They also might lack pertinent details about a transaction, such as whether the seller contributed to the financing.

- **No photos**
  A recent trend among listing agents is pulling photos from the MLS after properties have sold, in response to buyers' concerns about privacy. Although it is not required, many agents comply with this request. But photos are an important tool in selecting comparables; agents who don't have access to them are at a disadvantage when

preparing CMAs. Contacting the listing agent to see if he or she can provide the photos is one way around this dilemma. If this is a trend in your area, consider downloading and saving photos when the listings are still active, so you have them.



- **Changing markets**
  When markets are volatile—for example, when a neighborhood is in a state of rapid gentrification or decline—it can be difficult to identify comparables. In such a market, the guideline of choosing comparables that were listed or sold within 90 days of your CMA research might result in candidates that are no longer truly comparable with the subject. To evaluate comparables, agents must be able to gauge when and how markets are shifting. The following illustration provides a rough guideline for determining whether a market is stable or changing and for choosing comparables accordingly.

- **Too much personal property in contract**
  Some residential real estate transactions include tangible property that is not classified as real estate—items such as furnishings, artwork, antiques, machinery, and equipment. For example, consider sellers of a lakefront property who own a speedboat they will no longer have use for in their new home. They include it in the property sale, which skews the price up by $10,000. If this property is used as a comparable, the sales price should be adjusted down by $10,000. But an agent who sees only the sale price in the MLS might fail to do so.

- **Not every sale is a market-driven transaction**
  As noted earlier, not every sale or listing represents an arm's-length transaction. And the fact that a transaction is not arm's-length

generally is not obvious from marketing sources such as the MLS. Often it is necessary to dig into public records to make this determination. One clue might be that the seller is the financial institution that holds the mortgage on the property. This might indicate a foreclosure with a sales price that is not representative of the market.

Resources for Identifying Comparables and Analyzing Markets

In preparing a CMA, agents can turn to a number of resources—some more useful than others—to identify comparables and analyze the market.

MLS

The primary purpose of the MLS is to provide a facility for making an offer of cooperation and publishing a unilateral offer of cooperation and compensation by a listing broker to other broker participants in that MLS. In other words, the compensation offered to a cooperating broker by the listing broker is published within the MLS to other cooperating brokers.

Although the chief use of MLS services is assisting in the sale of a property, most computerized MLS services allow members to number crunch multiple possibilities—that is, to perform statistical analyses of properties and their features. This is helpful in pricing property and determining trends in the market.

An agent working in a market where many sales are not in the MLS faces a significant task. For example, many new construction sites are not listed with brokers because the builder is selling the facilities. If this is the case, the agent will need to access public records for information.

Public Records

According to Merriam-Webster's *Dictionary of Law*, a public record is any document or record required to be made or kept by law, such as a record made by a public officer or a government agency in the course of the performance of a duty. Public records are subject to inspection, examination, and copying by any member of the public.

The most often-used public records for identifying comparables are County Assessor’s tax data, property records (e.g., deeds, mortgages, liens, leases), and land surveyor charts.

Public records are often maintained in physical files. Many public records are available via the Internet or other sources. Even though they are public, their accessibility is not always simple, free, or easy.

Access to public records might also vary by state. Public records in non-disclosure states contain information that a sales transaction has taken place, but the sale price is not disclosed. In non-disclosure states, the information on non-brokered, non-MLS sales is limited.

REALTORS Property Resource® (RPR®)

NAR has created RPR®, a "Second Century Initiative," which is a national repository of information on 166 Million parcels of property in the United States, accessible only by members of NAR and participating MLS/CIEs. As of September 2015, RPR® licensing agreements include 940,437 REALTORS®.

RPR® provides a detailed view of every parcel of property in the United States, including: public record and assessment information, details of prior transactions and sales history (where available), zoning, permits, mortgage and lien data, neighborhood demographics, and schools. RPR merges MLS/CIE-provided information with this robust catalog of publicly available data, while also incorporating psychographic and lifestyle information, all in one place.

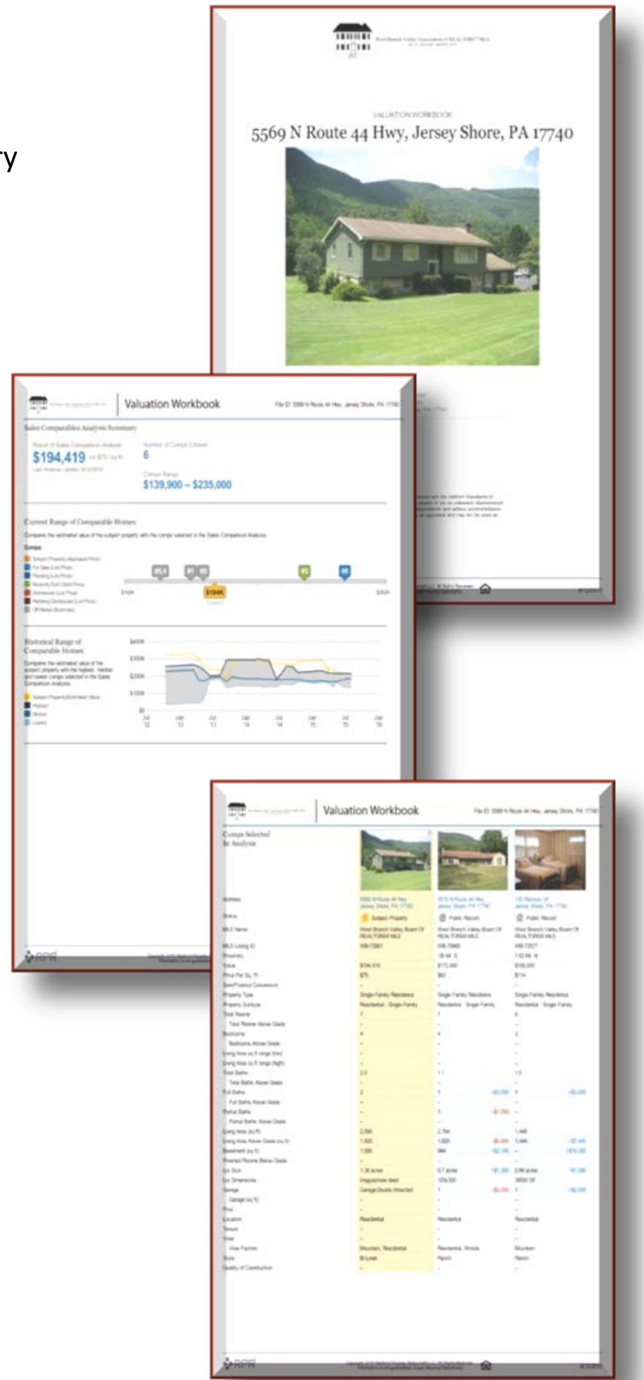
Because it is all in one place, RPR® has the ability to enhance agent productivity. Search features yield nationwide property results, as well as local market-to-market comparisons. Hot trends, unique maps, and reliable reports are all readily available, but that is only scratching the surface. With its advanced reporting tools, RPR® can enhance sales and listing presentations.

The historical chart for each property layers years of transactions and financing activity, assessed value, loan balances and default recordings, along with other relevant trends and facts. Smart analytical tools, along with nationwide demographic comparisons, helps agents provide valuable information to their clients and customers.

The following RPR® tools can be used to identify comparables and prepare CMAs: property search, school search, subject property data adjustments, recent sales and comparative listings, neighborhood facts, and red flags where distressed properties are involved. RPR® contains built-in tools for constructing and adjusting lists of comparables, plus there is a valuation workbook designed for appraisers that agents can use as a comprehensive CMA.

*Realtors Property Resource® Valuation Workbook Contents**

- ✓ Cover with agent contact information and branding
- ✓ Subject Property: Home Facts
- ✓ Subject Property: Extended Home Facts
- ✓ Subject Property: Property History
- ✓ Subject Property: Sales and Financing Activity History
- ✓ Neighborhood Aerial Map
- ✓ Flood Zone Map with Subject Property Ranking
- ✓ Sales and Comparables Analysis Summary
- ✓ Historical Range of Comparable Homes
- ✓ Comparables and Adjustments Map
- ✓ Comparables Selected in Analysis
- ✓ Comparables Property Facts and Photos (each comp)
- ✓ Local Market Conditions Summary
- ✓ Local Market Conditions: Sales of Similar Property (with and without distressed properties)
- ✓ Local Market Conditions: Sales of Single Family Homes
- ✓ Total Sales and Listings
- ✓ List price vs. Sales Price
- ✓ Median Days on Market
- ✓ Sales Price vs. RVM
- ✓ Absorption Rate
- ✓ General Market Health Charts
- ✓ Median Sales Price vs. Sales Volume
- ✓ Median Listing Price vs. Listing Volume
- ✓ Listing Inventory
- ✓ Price per Bedroom of Homes Sold
- ✓ Median Sales Price by Square Footage
- ✓ Price Range of Homes Sold
- ✓ Price per Square Foot of Homes Sold
- ✓ Age Range of Homes Sold
- ✓ Number of Bedrooms in Homes Sold
- ✓ Estimated Home Values Map
- ✓ 12-Month Change in Estimated Value Map
- ✓ Estimated Value per Square Foot Map
- ✓ Market Snapshot: All Detached Homes within 0.8 Miles Map
- ✓ Active Listings Map



* Refer to page 106 to see sample pages.

Automated Valuation Models

Automated valuation models (AVMs) are online databases that try to match up similar properties to give an idea of the range of sales prices that have historically been recorded. County assessors were some of the first to use such services because of budget and personnel limitations. However, this information is limited to basic factual data, such as the size of the house, number of rooms and bedrooms, age of the house, and area surrounding the house.

Although AVMs provide quick and convenient information, they may miss important value-influencing characteristics. For example, depending on data accessibility, AVMs may be unable to distinguish distinct property characteristics such as the school district in which a property lies, whether there is a nearby river, or if the property is in or near a resort. They also cannot take into account the effect of changing neighborhoods. AVMs provide useful information about the subject and comparable properties, but agents should not rely exclusively on them in preparing CMAs.

Savvy agents should be familiar with what online consumer-oriented AVMs such as Zillow or Trulia have to say about a subject property. Clients often check out these sites so agents should be prepared to explain to clients how these AVMs work and the margin of error for their data and estimates.

Realtors Valuation Model® (RVM®)

The Realtors Valuation Model® (RVM®) is an AVM produced using MLS listing content licensed by RPR®, along with the assessment, deed, mortgage, and distressed property information in the RPR database.

The RVM® is the only AVM that uses listing content that is 100 percent licensed directly from MLSs around the country by RPR®. As a result, the RVM® provides a high degree of accuracy and timeliness of the inventory data and creates as close to a real-time value index as exists in the market today. Although not a substitute for an appraisal, the RVM®, offered through RPR®, has established a new standard for automated valuations with a product that is owned, powered, and provided by the REALTOR® organization.

If an RVM is displayed on a property in RPR®, the RPR® Property Report will provide an estimated value based on real-time MLS data and assemble a comprehensive profile of the neighborhood and property. The Property Analysis for Investors tools, found on the Details tab, provides the option to choose a strategy—buy and hold, resell, or rent—and adjust the variables for investment goals, financing, and property conditions as well as generate reports.

Access to RPR® and RVM®

All REALTORS® have access to RPR® as an exclusive REALTOR® member benefit. But only those REALTORS® who participate in MLSs that share data with RPR® have the benefit of the RVM®. If an MLS does not share data, value estimates are calculated by an automated valuation model using only publicly available information on past sales, not MLS data. Each MLS chooses whether to share data with REALTORS® who are not subscribers. Some MLSs share on-market listings with all REALTORS®, some only with their own subscribers. Find out if your MLS shares data by visiting ***http://blog.narrpr.com/rpr-partners***.

Create an account and take the RPR® application for a test drive at ***www.narrpr.com***. For training on how to use the app, visit the RPR® Blog at blog.narrpr.com/training for free video tutorials as well as information about continuing education credit for classroom training and online RPR classes.

Agency and Company Files

In many agencies, one resource to keep in mind is prior files on same-property transactions. These can prove helpful in getting perspective on pricing trends, property features, and positive selling points.

Exercise 2.3: Selecting Comparables

On the pages that follow you will find detailed property descriptions for a subject property and 11 comparables.

Which comps would you choose? Why?

Subject Property

Style:	2 Story
Bedrooms:	4
Bathrooms:	2 full – 2 half
Garage:	2
GLA:	2,400
Basement:	Full–Finished
Kitchen:	Stainless Appliances, Granite
Other:	Hardwood Floors
Fireplace:	Yes
Exterior:	Brick, Cedar, Deck, Fence
Year Built:	1985
Taxes:	$9,843
School:	Washington

Subject Information:

- UPDATED KITCHEN AND BATHS
- MASTER BEDROOM WITH PRIVATE BATH
- FAMILY ROOM WITH FIREPLACE
- 2-STORY FOYER
- ALL MAJOR COMPONENTS IN GOOD CONDITION INCLUDING NEW FURNACE AND GARAGE DOOR
- ALL APPLIANCES REMAIN
- FORMAL DINING ROOM
- NEWLY REFINISHED HARDWOOD FLOORS ON THE ENTIRE UPPER LEVEL
- CUSTOM BUILT-IN BOOK SHELVES

NOTES:

1. All appliances means stove, refrigerator, dishwasher
2. Assume all have air conditioning

Comp #1

Style:	2-story
BR:	3
Bath:	1 full – 1 half
Garage:	1
GLA:	1,800
Basement:	Full, finished
Kitchen:	Stainless, Granite
Fireplace:	No
School:	Washington
Exterior:	Frame/brick, deck, fenced
Year Built:	1949
Taxes:	$6,984
Location:	3 blocks
Date Sold:	3 months ago
Sales Price:	$360,000
Financing:	Conv.

Details:

This side walk community home is move in ready! Tons of updating done to this home including: newer windows, furnace ('11), kitchen ('16), bathroom ('11), freshly painted inside and out ('16), tuck pointing ('15), shed ('15). Enjoy this brand new kitchen with 42 inch cabinets, brand new appliances and countertops. Full bath with floor to ceiling slate tiles surrounding tub. Hardwood floors throughout. Grab your book and enjoy the reading nook off living room on main level. Don't forget about the finished family room space in basement. Extra-large storage space for this home! Fully fenced in yard, shed, garden and larger patio space, all perfect for entertaining.

Comp #2

Style:	2 Story
BR:	4
Bath:	2 Full – 1 half
Garage:	2
GLA:	2,200
Basement:	Full – Partially finished
Kitchen:	Ceramic floor, appliances
Fireplace:	Yes
School:	Adams
Exterior:	Aluminum, brick, patio
Year Built:	1976
Taxes:	$9,462
Location:	1 mile
Date Sold:	6 months ago
Sales Price:	$340,000
Financing:	Conv.

Details:

Beautiful curb appeal welcomes you home! Spacious 4 BR, 2-1/2 bath two-story home with a court location. Concrete driveway and front entry lead to open the foyer with newer ceramic tile flooring. Spacious living room and dining room both have neutral carpeting and newer bay windows with window seats. The kitchen has newer ceramic tile flooring, newer stove and refrigerator. The basement has a finished recreation room and a large storage and utility room too. Leaf-guard gutters, central vac, intercom, and mechanical updates.

Comp #3

Style:	2 Story
BR:	3
Bath:	2 full
Garage:	2
GLA:	2,000
Basement:	Full unfinished
Kitchen:	All appliances, granite
Fireplace:	No
School:	Washington
Exterior:	Vinyl siding, deck, fenced
Year Built:	1985
Taxes:	$8,270
Location:	Same block
Date Sold:	1 month ago
Sales Price:	$340,000
Financing:	FHA

Details:

LARGE FAMILY ROOM W/ATRIUM DOOR TO DECK; CUSTOM GOURMET KITCHEN W/GRANITE, SS APPLCS, CUSTOM LIGHTING AND GARDEN WINDOW; HUGE MASTER BR W/VAULTED CEILG; BATH HAS DOUBLE-BOWL GRANITE VANITY; FENCED YARD & SHED; SIDING & ROOF -2 YRS; FURNACE, WASHER, DRYER - 4 YRS. EXCLUDE: FR SHELVING UNITS & TV

Comp #4

Style:	Ranch
BR:	3
Bath:	2 full
Garage:	2
GLA:	1,800
Basement:	Full – Partially finished
Kitchen:	All appliances, granite
Fireplace:	No
School:	Washington
Exterior:	Brick
Year Built:	1978
Taxes:	$7,312
Location:	½ mile
Date Sold:	2 months ago
Sales Price:	$370,000
Financing:	Conv.

Details:

KITCHEN HAS AN AMPLE EATING AREA AND ACCESS TO OUTSIDE PATIO. FAMILY ROOM HAS A STYLISH BRICK FIREPLACE, GAS LOGS AND STARTER. LARGE SKYLIGHT GIVES THIS ROOM PLENTY OF NATURAL LIGHTING. ALL BEDROOMS HAVE HARDWOOD UNDER CARPETING. MASTER BEDROOM HAS A FULL BATH FOR YOUR CONVENIENCE. LARGE RECREATION ROOM AND STORAGE MAKE THIS HOME THE SMART CHOICE. SIDE LOAD 2 1/2 CAR ATTACHED GARAGE IS ANOTHER PRACTICAL FEATURE. MANY NEWER UPGRADES INCLUDE: FURNACE 2 1/2 YEARS; A/C 2 YEARS AND HUMIDIFIER, 6 MONTHS. MANY NEWER WINDOWS, ALSO.

Comp #5

Style:	2 Story
BR:	4
Bath:	3 full – 1 half
Garage:	2
GLA:	2,450
Basement:	Full – Partially finished
Kitchen:	All appliances, washer/dryer
Fireplace:	Yes
School:	Adams
Exterior:	Vinyl, brick
Year Built:	1972
Taxes:	$9,614
Location:	1.5 miles
Date Sold:	4 months ago
Sales Price:	$330,000
Financing:	FHA

Details:

CHARMING HOME IN A MUCH SOUGHT AFTER NEIGHBORHOOD! AT A VERY ATTRACTIVE PRICE! VERY CLEAN FRESHLY PAINTED INTERIORS AND NEW CARPETS. TOTALLY NEW TEAR OFF ROOF! GENEROUSLY SPACIOUS MASTER B/R VERY LARGE OTHER B/Rs. VACANT AND READY FOR IMMEDIATE POSSESSION UPON CLOSING. MOTIVATED SELLER. BRING ON YOUR OFFERS!

Comp #6

Style:	Split level
BR:	3
Bath:	2 full
Garage:	2
GLA:	2,300
Basement:	Lower level
Kitchen:	All appliances, washer/dryer
Fireplace:	Yes
School:	Washington
Exterior:	Vinyl, brick
Year Built:	1973
Taxes:	$5,150
Location:	2 blocks
Date Sold:	1 month ago
Sales Price:	$340,000
Financing:	Conv.

Details:

Hardwood floors, more hardwood under the carpet in bedrooms, bay window, granite counter tops, ceramic tile back splash, solid oak 6 panel doors, updated baths and more... Check out the custom kitchen work and storage area. Family room has Sterno fireplace on one end and wall to wall cabinets and shelving for all your entertainment needs on the other. Large, clean, dry, easy access crawl space. Sun room has sliding doors and high quality blinds on three sides. Lower level opens to back yard area. Split-level living at its best.

Comp #7

Style: 2 Story
BR: 4
Bath: 2 full
Garage: 2
GLA: 1,700
Basement: Full unfinished, exterior access
Kitchen: All appliances
Fireplace: No
School: Washington
Exterior: Cedar
Year Built: 1950
Taxes: $6,495
Location: 1 mile
Date Sold: 6 months ago
Sales Price: $330,000
Financing: Conv.

Details:

This 2-story with oversize lot (100 x 132) nestled among tall pines trees will surely impress. Home offers 4 bedrooms one that is being used as office located on the first floor with three good size bedrooms upstairs. Recently built (2013) 28 x 22 Garage totally rebuilt from the ground up with extra storage and working area. Enjoy great back yard fun with your huge 30 x16 deck. Other notables, New Driveway (2014) Well tank and pump (2014) most carpet installed (2010).

Comp #8

Style: 2 Story
BR: 3
Bath: 1 full – 1 half
Garage: 1
GLA: 1,500
Basement: Full – Partially finished
Kitchen: All appliances
Fireplace: Yes
School: Washington
Exterior: Brick
Year Built: 1946
Taxes: $7,487
Location: 1 mile
Date Sold: 1 month ago
Sales Price: $325,000
Financing: Conv.

Details:

ARCHED DOORWAYS, HARDWOOD FLOORS, FORMAL LIVING RM W/COZY FIREPLACE, REMODELED KITCHEN W/36" RAISED PANEL WHITE CABINETS, GRANITE CTRPS, NEWER APPL'S, LIGHT/BRIGHT FAMILY RM W/SLIDERS TO CONC. PATIO-W/VIEWS OF BEAUTIFULLY LANDSCAPED FENCED YARD-IDEAL FOR OUTDOOOR ENTERTAINING! REMOD BATHS, FINISHED BASEMENT REC. RM, NEWER WINDOWS, ROOF, EXTERIOR RAILINGS, EXCEL. CLOS/STORAGE.

Comp #9

Style:	2 Story
BR:	4
Bath:	2 full – 1 half
Garage:	2
GLA:	2,300
Basement:	Partial – unfinished
Kitchen:	Stainless, granite
Fireplace:	Yes
School:	Adams
Exterior:	Aluminum, brick
Year Built:	1977
Taxes:	$7,255
Location:	1 mile
Date Sold:	7 months ago
Sales Price:	$350,000
Financing:	Conv.

Details:

Formal living & dining room boast virgin Oak floors under carpet. Huge sun drenched eat-in kitchen with Oak cabinets, bay window & all S.S appliances. Large master suite with his & hers closets, separate dressing area, full bath, & shower with all ceramic tile. Guest bath with ceramic tile floor, tub, & shower. Oak floors in all bedrooms. All major updating done! Roof, windows, furnace, & A/C 2005. Hot water & sump pump 2016.

Comp #10

Style:	2 Story
BR:	3
Bath:	2 full – 1 half
Garage:	2
GLA:	2,150
Basement:	Full finished
Kitchen:	All appliances
Fireplace:	Yes
School:	Washington
Exterior:	Aluminum, brick, deck
Year Built:	1985
Taxes:	$10,645
Location:	5 blocks
Date Sold:	2 months ago
Sales Price:	$370,000
Financing:	Conv.

Details:

All new stainless appliances June 2016*freshly painted June 2016*all new insulated siding, gutters & downspouts 2013*new carpeting*roof, furnace & air 10 years*skylights in 2 bathrooms*1st floor den/playroom/office*large deck off kitchen*cul de sac*very well kept home*The wall between the office and kitchen can be removed to make the kitchen larger.

Comp #11

Style:	2 Story
BR:	5
Bath:	2 full – 2 half
Garage:	2
GLA:	2,450
Basement:	Full – finished
Kitchen:	All appliances, stainless steel, granite
Fireplace:	Yes
School:	Washington
Exterior:	Aluminum, brick, deck
Year Built:	1982
Taxes:	$10,850
Location:	2 blocks
Date Sold:	2 months ago
Sales Price:	$420,000
Financing:	Conv. 3 pts.

Details:

Be prepared to be wowed! A great open floor plan for everyday living or entertaining. Beautifully updated 5 BR 2 Story home. Features incl: New roof, siding, soffit, fascia and gutters; hardwood floors, new KIT with stainless steel appl and granite counters; Updated Baths. Master BA with whirlpool tub and sep shower. 1st Floor FR. Fireplace. 3 Season Rm with Skylights.

One of the ways to determine if the schools, styles, age, etc., are determining factors in pricing in your area is to look at the per-square-foot pricing.

Comp #	Sales Price	Sq. Ft	Price/Sq. Ft.	School	Style	Built
1	$360,000	1800	$200	Wash.	2-S	1949
2	$340,000	2200	$156	Adams	2-S	1976
3	$340,000	2000	$174	Wash	2-S	1985
4	$370,000	1800	$205	Wash	Ranch	1978
5	$330,000	2450	$135	Adams	2-S	1972
6	$340,000	2300	$148	Wash	Split	1973
7	$330,000	1700	$194	Wash	2-S	1950
8	$325,000	1500	$216	Wash	2-S	1946
9	$350,000	2300	$152	Adams	2-S	1977
10	$370,000	2150	$172	Wash	2-S	1985
11	$420,000	2450	$171	Wash	2-S	1982

Analysis:

Price/square foot of Washington School Homes ____

Price/square foot of Adams School Homes ____

Price/square foot of ranch in Washington School _____________________________________

Price/square foot of split level in Washington School _________________________________

Conclusions:

____

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**Note: We will come back to this after we have done our CMA in the next Module.

Seller's Equity Worksheet Calculations

At the time of taking the listing it is important that the seller have an estimate of what they will be netting from the sale. Doing the Estimated Equity Worksheet will help you do this as well as determine if the seller is being reasonable in their expectations.

There are two approaches to doing the Worksheet:

1. Prepare one prior to going on the appointment using the mid-range of your estimated sales price from your CMA.

2. Ask the seller after you are done with your CMA discussion what price they want you to calculate their estimated equity from. This gives you insight into their expectations.

We will use the following information to complete the Seller's Estimated Equity Worksheet on the following page.

List Price:	TBD
Mortgage Balance:	$175,000
2nd or HELOC:	$50,000
Taxes:	$9,800
State/County Transfer Taxes:	$1.50/1000
Local Transfer Taxes:	$5/1000
Closing Date:	60 days
Survey:	$500
Marketing fee (Compensation):	6%

Note that commissions are always negotiable. The number being used is for educational purposes only. Neither the instructor nor the sponsor are recommending or suggesting any specific compensation to be charged.

Sellers Estimated Equity

Note that items in bold will not change regardless of who you list your property with. The other items are expenses that will be charged to you, the seller, and may change based on the title company, surveyor, attorney, home warranty company or real estate brokerage firm you choose.

Estimated Sales Price (or offer price)	$ __________
Mortgage balance – primary loan	**$** __________
Second mortgage/HELOC	**$** __________
Tax pro-rations – last year	**$** __________
Tax pro-rations – current year	**$** __________
Transfer taxes – state/county	**$** __________
Transfer taxes – local	**$** __________
Marketing fee	$ __________
Survey	$ __________
Home Warranty	$ __________
Seller Concessions	$ __________
Title Charges	$ __________
Attorney Fees	$ __________
Other	$ __________
Other	$ __________
Total Estimated Expenses	**$** __________
Estimated Equity to Seller	**$** __________

❖ Other expenses could include: recording fees, unpaid assessments, prepayment penalties, termite inspections, FHA/VA fees paid for buyer, among others.

Note: **This is not a closing statement**. This is intended to give the seller an estimate of what their expenses could be in a typical real estate transaction. The broker and/or agent cannot be responsible for miscalculations resulting from changes in fees, differences in mortgage balances or escrow balances, changes in taxes or any other item that may affect the accuracy of this estimate. **This is a good-faith estimate and all figures should be reconfirmed with your attorney and possibly your lender.**

PRICING STRATEGIES:

Mastering the CMA

3: Preparing the CMA

NATIONAL ASSOCIATION of REALTORS®
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Learning Objectives

At the conclusion of this Module, you will be able to

- Explain key principles of pricing that impact CMAs
- Recognize correct guidance, as well as common challenges and errors, in adjusting comparables
- Adjust comparables, using values developed from appropriate averages and cost data

After you have identified appropriate comparables to use in a CMA, you almost certainly will need to make adjustments to some or all of them to use them in pricing the subject. This Module will have a lot to say about how to make adjustments—and will give you appropriate guidance to use while doing so. But we begin with a few principles of pricing that are also critical in preparing the CMA.

The Role of Supply and Demand in Pricing

Supply and demand is the principle that the value of any good or service will rise as demand increases and supply decreases, and fall as demand decreases and supply increases. This principle might be more familiar to real estate agents as embedded in the concept of buyers' and sellers' markets:

- Sellers' market conditions exist when the demand for homes to purchase is high and the supply is low. Home prices are generally heading upward in a sellers' market.
- Buyers' market conditions exist when demand is low and supply is high. Home prices are generally flat or heading downward in a buyers' market.

Absorption Rate

We can determine more precisely what market conditions exist by calculating the absorption rate. The absorption rate is an estimate of the rate at which a particular classification of properties for sale or lease can be successfully marketed in a given area. To analyze supply and demand, an absorption rate must be developed.

To calculate absorption rate, you need to determine the number of competitive properties currently on the market and divide that number by the number of properties that have been selling per month.

For example, if 4 homes are sold every month and there are 44 homes for sale, it will take 11 months to sell all the homes currently for sale. If there are 80 homes for sale, the absorption rate will be 20 months or almost 2 years for all the homes to sell. This does not take into account the number of houses that will eventually come on the market in addition to those already for sale.

How many months back should you look in calculating absorption rate? It is recommended to use 3 months to determine the average absorption rate and then compare this figure with just the previous month's absorption rate to see the trend:

- Sellers' market conditions—Absorption rate is 1–4 months
- Normal market conditions—Absorption rate is 5–6 months
- Buyers' market conditions—Absorption rate is 7+ months

Understanding market conditions is an important factor in preparing a CMA for your client. Buyers and sellers need to know what kind of market they are operating in, because it impacts pricing and competition, and agents must be able to communicate this to their clients.

Exercise 3.1: Using Absorption Rate to Advise Clients

Rita is a REALTOR® who has tracked sales of single-family, two-story Colonial homes in her market area for the past 2 years using the following parameters:

- ✓ 10–30 years old
- ✓ 3–5 bedrooms
- ✓ 2½ baths
- ✓ 2,200–2,600 square feet
- ✓ Two-car garage
- ✓ Lot size of ⅓ to ½ acre

Rita discovers that during the past 12 months, 48 houses that meet this description have sold in her market of competing neighborhoods. What is the absorption rate for this market?

Knowing this, how should Rita advise sellers of similar homes in each of the following scenarios?

A. There are currently 12 homes like this on the market.

B. There are currently 22 homes like this on the market.

C. There are currently 62 homes like this on the market.

Methods of Adjusting Comparables

There are two primary methods of adjusting comparables: cost-based and market-based. When you are adjusting comparables, some property features lend themselves better to the cost-based method and others to the market-based method. Some features can be adjusted either way.

Cost-Based Adjustments

In the cost-based method, the value of a particular feature of a property is estimated based on the actual cost to construct or add it. Although this is typically not how real estate agents create CMAs, there are times when using the cost-based method is necessary.

You might need to use the cost-based method when a buyer, logically, would make an adjustment the same way. For example, suppose a house goes through foreclosure, and the former owners have removed the furnace. Because buyers want a furnace, they will make an adjustment for this in the price of the house, and the agent should also do so when preparing a CMA for this client. In fact, a savvy agent will obtain estimates for a new furnace to have an answer to the inevitable question, "What will it cost me to put a furnace in here?"

The cost of a property feature can vary significantly from market to market and over time. Many experienced agents have contractors they can call to obtain estimates of construction and repair costs. If you have not yet developed such resources, tools you might find helpful include the following:

- ***2015 Cost vs. Value Report***
  www.costvsvalue.com
- ***Residential Construction and Remodeling Estimates***
  www.pillartopost.com

Market-Based Adjustments

In the market-based method, the value of a particular feature of a property is estimated based on market knowledge or a paired-sales analysis. The differences between the comparable and the subject are isolated, and an adjustment is applied based on the market value of the item being adjusted.

There is no definitive list of values that can be applied universally when pricing property. But with market knowledge of a specific area, agents are able to develop good estimates of value for specific house features. They learn from experience, for example, the value of four bedrooms versus three bedrooms, or 2.5 baths versus 1.5 baths, in a particular market. They can then use these amounts to make adjustments for differences between comparables and the subject. Periodic brainstorming with local appraisers can also help agents determine the value of an adjustment.

Sometimes a house feature is uncommon or unfamiliar, or the market is changing and historical experience is no longer a sufficient guide to value. Sometimes an agent is new to a market and has not yet developed a good experiential understanding of feature values in it. In these circumstances, a paired-sales analysis is needed to develop an adjustment amount. In a paired-sales analysis, a specific feature is compared across multiple comparable transactions to isolate its effect on price.

In appraisal textbooks, the term paired sales refers to when two properties are identical in every respect except one; the difference in price is then attributed to this feature. The problem is that true paired sales are rare because houses almost always are different in a number of ways. However, you will find with time and experience in your market that you develop a feel for adjustments.

Let’s look at an example of a paired-sales analysis. Consider four comparables that differ only in the size of the garage:

- Sale A sold for $255,000 with a two-car garage
- Sale B sold for $255,500 with a two-car garage
- Sale C sold for $260,000 with a three-car garage
- Sale D sold for $261,000 with a three-car garage

  - Matching A with C—value of garage is $5,000
  - Matching A with D—value of garage is $6,000
  - Matching B with C—value of garage is $4,500
  - Matching B with D—value of garage is $5,500

We now have four possible adjustment amounts for the difference between a three-car garage and a two-car garage in a comparative analysis. Which one do we use? Choosing one of the middle numbers

($5,000 or $5,500) is a good approach. Alternatively, we could use an average of the four values as the adjustment amount. In this case, the average works out to $5,250, and we usually don't use numbers that precise to adjust a comp. But the average amount reinforces that either $5,000 or $5,500 would be a good choice because it falls right between them.

The Importance of Market Expectations

When making adjustments, it is critical to keep market expectations in mind. Market expectations are what a probable buyer presumes to find in a house of a particular age, type, location, and price range (the lower the price, the lower the expectations). If a comparable is lacking a feature that the market expects it to have, you must adjust for this deficiency!

For example, market expectations are that a home in Florida has central air conditioning. If it doesn't, the market will penalize that property. In this example, the amount of the penalty would probably be the cost to remedy the deficiency. In other words, what would it cost to install central air? This adjustment can be made using the cost approach.

Other differences from market expectations require the market-based approach to making adjustments. For example, a buyer might pay $1,500 less for a house with only one bathroom, as opposed to two bathrooms. The $1,500 is not the cost to install a bathroom, but instead represents the buyer's opinion of the value of the second bath. This adjustment amount must be determined through an agent's market experience or a paired-sales analysis.

When you calculate adjustment amounts using the market-based method, make sure you derive the data from a pool of comparables similar to the subject. Adjustments will vary according to price range because market expectations change with a price range. A good example for a garage is that at the lowest price range a buyer might not expect a garage, and might not pay significantly more for a garage. However, at the upper price ranges, not only do buyers expect garages, but in many markets, at specific price points, their expectations for the number of car bays in the garage goes up. For example, in some markets, once we cross the $500,000 threshold, buyers expect a three- or four-car garage, not just a two-car garage. Make sure you are comparing "apples to apples."

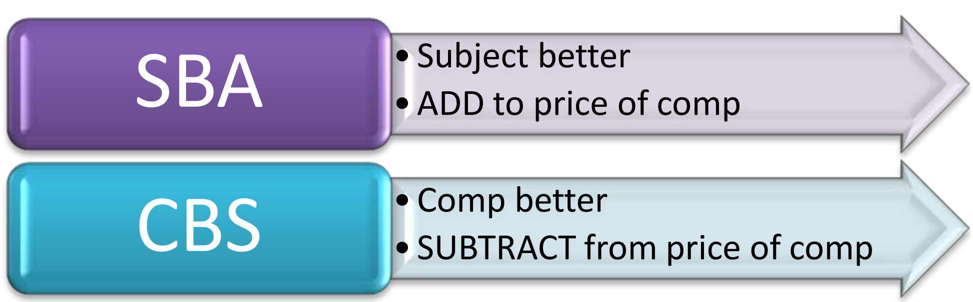
Making the Adjustment

Regardless of whether you obtain the adjustment amount from the cost-based method or the market-based method, it is applied to the sale price of the relevant comparables. In other words, you adjust what is known (the sale price of a comparable) to estimate what is unknown (the subject's value).

In our previous garage example, let's say we determined that the adjustment amount for a two-car versus three-car garage is $5,000. This amount is either added to or subtracted from the comparable's sales price to equate to the subject.

- If the subject property has a three-car garage, the adjustment would be plus $5,000 to the two comparables with two-car garages. The comparables with three-car garages do not need to be adjusted for this feature.
- If the subject property has a two-car garage, the adjustment would be minus $5,000 to the comparables with three-car garages. The comparables with two-car garages do not need to be adjusted for this feature.
- The same amount is used in each adjustment.

There are two easy acronyms with which to remember this adjustment principle:



Remember that adjustments for the same feature should be made at the same amount, regardless of the adjustment method you use. For example, if an adjustment for an extra bathroom on one comp is $2,000, all comps within the same number of bathroom differential should be adjusted the same amount.

Applying the Principles of Substitution and Market Expectation

Some values are easy to identify. For example, it is easy to identify the value of a lakefront lot versus one that does not front the lake by looking at properties that sold on the water versus those that did not and arriving at a value for the waterfront.

When paired sales analyses are not available, agents use their expertise of the market to determine what a typical buyer would be willing to pay for that type of amenity in that market at that time.

Here is where we apply the principle of market expectations to adjusting comparables. Market expectations, as noted earlier, are what a probable buyer presumes to find in a house of a particular age, type, location, and price range. Only those differences between the subject and the comparable that are important to the majority of buyers willing—that is, buyers would be willing to pay more or less for the feature—are adjusted upward or downward.

Substitution

Substitution follows the premise that a prudent buyer will pay no more to acquire one particular property, or any component in a property, than what it would cost him or her to either buy elsewhere, build new, or put the component in. The principle of substitution, along with market expectations, drives the market-based pricing model.

In plain terms, substitution means that the real estate market is competitive: A buyer will generally go for the least expensive house that satisfies his or her criteria, all other things being equal. For this reason, agents need to be as accurate as possible in the adjustment of the comps. For example, if a buyer can get a home with a three-car garage for $5,000 more in other homes on the market, he or she is not going to pay $7,000 more for one because the seller wants more or "it cost more to build."

Consumers employ the principle of substitution with other big-ticket items as well. For example, a person who has decided on a particular make and model of vehicle will not usually pay more at one dealership than the cost of acquiring it at another dealership.

Fannie Mae Guidance on Adjusting Comparables

Again, Fannie Mae guidance is aimed at appraisers and appraisals, but real estate agents do well to apply it in adjusting comparables for CMAs.

What the Guidance Says

Analysis of Adjustments

Fannie Mae does not have specific limitations or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate comparable would require no adjustment; however, this is rarely the case as typically no two properties or transaction details are identical. The appraiser's adjustments must reflect the market's reaction (that is, market-based adjustments) to the difference in the properties. For example, it would be inappropriate for an appraiser to provide a $20-per-square foot adjustment for the difference in the gross living area based on a rule-of-thumb when market analysis indicates the adjustment should be $100 per square foot. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market-based adjustments without regard to arbitrary limits on the size of the adjustment.

If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported. (For further information regarding comparable selection, see B4-1.3-08, Comparable Sales.)

When there are no truly comparable sales for a particular property because of the uniqueness of the property or other conditions, the appraiser must select sales that represent the best indicators of value for the subject property and make adjustments to reflect the actions of typical purchasers in that market.

Sales or Financing Concessions

Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if any, on the sales price of the *comparables based on the market at the time of sale. Examples of sales or financing concessions include:*

- *interest rate buydowns or other below–market rate financing;*
- *loan discount points;*
- *loan origination fees;*
- *closing costs customarily paid by the buyer;*
- *payment of condo, co-op, or PUD fees or assessment charges;*
- *refunds of (or credit for) the borrower's expenses;*
- *absorption of monthly payments;*
- *assignment of rent payments; and*
- *inclusion of non-realty items in the transaction.*

Interpreting the Guidance

The guidance emphasizes that adjustments must be market-based, not arbitrary or boilerplate values. It also acknowledges—once again—that sometimes appropriate comparables cannot be found because the subject is so unique or because of particular conditions. In that case, sales that best indicate the value of the subject must be selected and adjusted appropriately.

Note also that Fannie Mae requires appraisers to adjust comparables to reflect any sales or financing concessions that might affect sales price. This is why agents usually need to provide a copy of the sales agreement to appraisers—so they can check for such concessions.

Once again, the guidelines also emphasize the importance of commentary about adjustments. It is not enough to simply state that an adjustment has been made. Appraisers must provide their logic and reasoning for making them.

Specific Considerations in Determining Adjustments

What constitutes a bedroom? When is a bathroom a full bath? Different MLSs sometimes have different criteria for these features and others. And some MLS definitions do not match the definition an appraiser would use to give value. In this section, we look at some specific home features and how to characterize them when selecting and adjusting comparables.

Bedrooms

Many municipalities have requirements for minimum bedroom size. In general, bedrooms should be at least 90 square feet in size and have natural light, ventilation, and a window that provides an emergency exit to outdoors. Because of the requirement for a bedroom window exit, a basement room with a small window can't be called a bedroom for FHA lending.

Closets are not required by lenders and others for a room to be a bedroom. Historic homes might not have closets because wardrobes were in use when these houses were built.

A tandem or captive bedroom is one that does not have hall access but must be reached through another room. Some markets count these as bedrooms; most do not. Be careful to compare only like-style bedrooms. A bedroom with its own hall access would have more value than a tandem bedroom.

Bathrooms

A full bathroom includes at least three out of these four features:

- Toilet
- Sink
- Bathtub
- Shower

A half-bath consists of a sink and toilet.

Some markets use the ¾ bath category—toilet, sink, and tub or shower, but not both. When in doubt, following Fannie Mae guidance is probably a good idea: A toilet, sink, and bathtub or shower constitute a full bath. This is also the definition that an appraiser would use, so a CMA that follows this definition will synchronize with an eventual appraisal of the property.

Gross Living Area

Commonly referred to as square footage in many MLSs, gross living area is defined by Fannie Mae as finished above-grade areas measured from the exterior building dimensions. Garages and basements (including those that are partially above-grade) should not be included in GLA. For example, a walk-out basement with finished rooms would not be included in the above-grade room count or GLA.

Rooms that are not included in the above-grade room count and GLA can add substantially to the value of a property. Comparisons should be made only by comparing above-grade areas with above-grade areas and below-grade areas with below-grade areas.

Adjusting for Gross Living Area

Although GLA should be as close to the subject as possible, if it is not the same, adjustments need to be made—unless the variance is insignificant.

- Generally speaking, if the difference in GLA is 20 percent or less, no adjustment is made. An exception to this guideline would be for a small house (800 to 1,000 square feet). In this case, a 20 percent difference is significant and should be adjusted for.
- Calculating per-square-footage price is tricky. Technically, you should subtract the land value from the total price to determine the actual cost per square foot. Because we don't usually separate land value from house, when you divide the sales price by the square footage you have an inexact calculation but a usable figure. This simplification is generally valid in a homogenous neighborhood—similar types of houses and similar lot sizes. It is not appropriate for very large lots or acreage.

Age

Every attempt should be made to find comps in the same neighborhood as the subject property; that would mean no adjustment for age. If either the subject or the comparable is new construction, an appropriate adjustment would need to be made.

Age adjustments are not consistent across the spectrum of home ages. For example, if you had to compare a 10-year-old home to a brand-new home, it would usually be a significant adjustment; but the adjustment for a 20-year-old home to a 30-year-old home might be minimal or nothing at all.

Some think an age adjustment means very little. Some think it means a lot. The question is really whether any adjustment needs to be made at all. If you had a choice to buy two identical houses with the exception that one was new and the other was 40 years old but rehabilitated, modernized, and improved until it looked just like the new home, would you pay the same price for the older home as you would the "like new" home? Appraisers call this effective age, which is how old the house is in terms of wear and tear, and overall conditions. Generally, the lower the effective age, the higher the price.

Lot Size

Again, because of neighborhood characteristics, lot size will probably be similar enough that no adjustment will be needed. Determining land value to make lot adjustments can be very difficult.

The house on a smaller-sized lot will generally sell at a discount, compared with other homes in the neighborhood. Consider what the land is used for: Does it provide off-street parking? Is it used for recreation?

In rural areas, lot sizes can vary tremendously. The home site is the most expensive parcel; owners who obtain extra land for a garden, storage buildings, more privacy, and so on generally pay much less per acre than they did for their home site. Two other important considerations in rural areas are:

- What is the minimum lot size, per local regulations?
- Can the property support an onsite sewage system (and possibly allow for expansion or repair of that system)?

Potential Mistakes and Special Challenges in Making Adjustments

Certain errors are not uncommon in adjusting comparables, and certain situations pose challenges for agents as they select and adjust comparables. You should be alert for these.

Double Dipping

The term double-dipping refers to adjusting for a feature more than once. For example, consider a comparable that is identical to the subject except that it has an additional room—a sunroom. One way to adjust for this difference would be to determine the value of the additional square footage contributed by the sunroom. Another way to adjust would be to determine the cost of constructing a sunroom addition. The important caution is not to make both adjustments—that would be double-dipping.

The Wrong Reasons to Adjust

Agents sometimes feel pressured to make adjustments that are not supported by market data. For instance, a seller in Minnesota angling for a higher listing price might argue that her home's built-in swimming pool should prompt an upward adjustment of comparables that do not have built-in swimming pools. But the typical buyer in Minnesota probably does not place a high value on a feature that can be used only a couple months per year. Making this adjustment to keep the seller happy would likely result in an inflated price.

Sometimes the pressure is internal, with an agent trying to justify a higher listing price to win a client. Whatever the motivation, the only correct reason to make an adjustment is because the market indicates it.

Outliers

An outlier is a property that sold for a price that is extremely high or low based on all other comparables. Often the reason for the outlying price cannot be determined by an agent preparing a CMA.

If you have enough ordinary comparables to conduct an accurate market analysis, it is best to omit outliers from your list of comparables altogether. If you do need to include an outlier, you will need to adjust it accordingly. For the purposes of calculating average sales price among multiple comparables, an outlier is usually omitted from the calculation because it will skew the result.

Stigmatized Properties

A stigmatized property is a home in which an actual or rumored event might diminish a buyer's desire for the property even though the property is not physically affected. Such events include murder, suicide, criminal activity, and alleged haunting.

A stigmatized property often sells for a price that is not reflective of its market—probably much lower. Like outliers, stigmatized properties should be avoided when identifying comparables. When this is not possible, they must be adjusted accordingly.

Exercise 3.2: Adjusting Comparables and Arriving at a Price Range

Look back at the comps you selected in Exercise 2.3 (page **Error! Bookmark not defined.**). Use these comps and the sample Evaluation Figures on page 71 to complete the CMA Analysis Worksheets that follow.

Based on the analysis worksheets, what is the price range for the subject property?

____

	Subject	Comp. #	Adjustments/ low end	Adjustments high end
Date of sale	--			
Price	--			
Seller concessions	--			
Loan type	--			
Proximity	--			
Style	2 sty			
BR	4			
Baths	2 full, 2 half			
Garage	2			
GLA	2400			
Basement	Full, finished 1200 sf			
Kitchen	Stainless appliances, granite			
Other	Hardwood floors			
Fireplace	Yes			
Year built	1985			
School district	Washington			
Other				
Adjusted value				

	Subject	Comp. #	Adjustments/ low end	Adjustments/ high end
Date of sale	--			
Price	--			
Seller concessions	--			
Loan type	--			
Proximity	--			
Style	2 sty			
BR	4			
Baths	2 full, 2 half			
Garage	2			
GLA	2400			
Basement	Full, finished 1200 sf			
Kitchen	Stainless appliances, granite			
Other	Hardwood floors			
Fireplace	Yes			
Year built	1985			
School district	Washington			
Other				
Adjusted value				

	Subject	Comp. #	Adjustments/ low end	Adjustments/ high end
Date of sale	--			
Price	--			
Seller concessions	--			
Loan type	--			
Proximity	--			
Style	2 sty			
BR	4			
Baths	2 full, 2 half			
Garage	2			
GLA	2400			
Basement	Full, finished 1200 sf			
Kitchen	Stainless appliances, granite			
Other	Hardwood floors			
Fireplace	Yes			
Year built	1985			
School district	Washington			
Other				
Adjusted value				

	Subject	Comp. #	Adjustments/ low end	Adjustments/ high end
Date of sale	--			
Price	--			
Seller concessions	--			
Loan type	--			
Proximity	--			
Style	2 sty			
BR	4			
Baths	2 full, 2 half			
Garage	2			
GLA	2400			
Basement	Full, finished 1200 sf			
Kitchen	Stainless appliances, granite			
Other	Hardwood floors			
Fireplace	Yes			
Year built	1985			
School district	Washington			
Other				
Adjusted value				

Evaluation Figures

The following figures are for illustration purposes only. They may or may not reflect the actual values in your marketplace. DO NOT use these values in formulating actual CMAs without verifying their accuracy for your marketplace.

Air Conditioning
Central vs none ....$2,000–$6,000
Functional window unit $250
Whole house ceiling fan ....$1,000—$2,500

Appliances
Oven/range and dishwasher are expected to remain in the home.
Make adjustment for appliances in very bad condition or if there are upscale (Viking, Sub-Zero) appliances in one but not the other ....$0—$500 each

Age
No adjustment may be needed for less than 5 years ....25%—.5%/year

Basement
Partial versus none ....$ 8,000—$15,000
Full versus none ....$15,000—$20,000
Walk out - add to above ....$ 5,000—$10,000

Basement (finished)
Below average finishing ....$0—$3,000
Average finishing ....$5,000—$10,000
Superior finishing ....$10,000—$20,000

Bathrooms
For each ½ bath difference ....$1,500—$3,000
For each full bath difference ....$2,500—$5,000

Bedrooms (only if functional and not in basement)
3 vs 2 ....$6,000—$8,000
4 vs 3 ....$4,000—$6,000
5 vs 4 ....$3,000—$5,000

Brick (All brick – not face brick).......... $4,000—$10,000

Busy Street (deduction)
Backing to a busy street ....$2,000—$5,000
Fronting a busy street ....$5,000—???

Deck
14 x 14 ....$2,000—$4,000
Multilevel and very large ....$8,000—$12,000

Dining Room
"L" or combination versus none ....$2,500—$5,000
Separate versus "L" ....$1,000—$4,000
Separate versus none ....$4,000—$8,000

Family Room (first floor) ....$8,000—$25,000
On main living level versus in the basement...$2,000—$8,000

Fireplace ....$4,000—$6,000

Fence ....$2,000—$4,000

Garage
Per stall ....$5,000—$10,000

Hardwood Floor .... $5,000—$7,000

Lot Size
If lot is significantly larger in same neighborhood (20% or more) ....Up to $10,000
Depth over 150' does not add value
Corner lot may be a deduction of up to $10,000 if no back yard

Patio
10 x 20 concrete $1,000
Very large free form aggregate stone ....$2,000—$5,000

Pool – depending on location
In-ground – possibly ....$6,000—$10,000
Above-ground—no value—may have negative value

Porch
Screened v patio or deck ....$2,000—$5,000
Screened w/permanent roof and footings ....$5,000—$10,000
Permanent with windows ....$10,000—$20,000

Square Footage
You will need to calculate the per square foot price. Sales price divided by square footage. Determine a square foot price that's reasonable and use the same value for each comp. Many experienced agents and appraisers will use 35–50% of the number.

PRICING STRATEGIES:

Mastering the CMA

4: Presenting the CMA

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Learning Objectives

At the conclusion of this Module, you will be able to:

- Discuss CMA documents and pricing conclusions with clients.
- Address client concerns about pricing.
- Explain value principles to clients.

What the CMA Report Contains

Among other things, a CMA report is a marketing tool, and its length, complexity, and design will vary according to an agent's preferred business practices. The final CMA report can vary from a two-page summary to tens of pages of analysis and photographs. Generally, it contains the following:

- A description of the market for the subject
- A description of the subject neighborhood
- A list and descriptions of the comparables used in developing a price for the subject
- An analysis of the comparables used, including adjustments made (this information is typically presented in a table format, with the subject and comparable features arranged side-by-side for easy comparison)
- Any commentary needed to clarify the procedures and logic that the agent applied in choosing and adjusting comparables
- A price range for the subject, based on analysis of the comparables

Some agents prefer not to include the amount of adjustments and focus instead on what was adjusted for. This avoids potential arguments from the seller that an adjustment is "not enough." Choose the approach that you feel comfortable with, and be prepared to defend actual adjustment numbers if you use them. Tools like RPR® can help.

Refer to page 39 of this manual for a model of content and organization for a comprehensive CMA generated through RPR®. Sample pages from the CMA can be found in the Resource section of this manual (see page 106).

Common Disclaimer Information

Your CMA will probably include one or more disclaimers. A disclaimer is a formal statement that says a person is not legally responsible for something, such as the information given in a brochure, ad, or online; or a claim that a person has no direct involvement or connection with it.

Familiar disclaimers in CMAs include the following examples:

- *This is a market analysis, not an appraisal, and was prepared by a licensed real estate broker or associate broker, not a licensed appraiser.*
- *This market analysis is based on information we had on [date]. This information might need to be updated.*
- *This analysis has not been performed in accordance with the Uniform Standards of Professional Appraisal Practice, which requires valuers to act as unbiased, disinterested third parties with impartiality, objectivity, and independence and without accommodation of personal interest. It is not construed as an appraisal and may not be used as such for any purpose*.

A disclaimer needs to be specific to the situation. It needs to fit the context of what is being disclaimed. A disclaimer is not a guarantee that you will not be sued. If you should not be doing something, do not do it. Disclaimers cannot compensate for poor judgment.

Some states have their own disclosures that they require to be used on CMAs. Please check your own state requirements.

Of course, you will not simply present the CMA report to your clients without comment or leave them to interpret the results on their own. The CMA is the opening of a dialogue between agent and client. Your mutual goal is to arrive at an appropriate price for the subject and, in a reasonable timeframe, close a transaction. The CMA is a means to reaching those goals. The rest of this Module looks at discussion points and client education issues that often flow from the presentation of the CMA.

Guiding Clients through the CMA

Sellers and buyers alike are apt to jump to the bottom line when looking at the CMA. They are most interested in the price range that emerges from all the analysis. A wise agent will guide clients through all the information in the CMA to demonstrate how the final figures were derived. Throughout, asking clients for their impressions and interpretations of the information presented will give you a better understanding of their concerns and possible sticking points in moving a transaction to a successful conclusion.

Understanding the Market

Begin by spending some time with the client looking at the local market and neighborhood information. This is an excellent time to explain the absorption rate data you calculated for the market. Clients are probably intuitively familiar with the notion of buyers' and sellers' markets, but not how to quantify this; use the absorption rate to help them understand their particular situation.

Ask an open-ended question to gauge the client's understanding at this point, something like, "*Mr. and Mrs. Seller, what do you think this market data indicates about how quickly your home is likely to sell*?"

Considering the Comparables and Competition

Next, spend some time discussing the comparables that were used in deriving the price range. People are naturally curious about others' homes—and how theirs compares—so this can be an engaging part of the CMA presentation for clients. Sellers are likely to focus on differences between their home and the competition, so be prepared to explain how you adjusted for these.

This is also a good time to discuss the competition with a seller. You will want to alert the client about any current listings that are direct competitors to their home, and the listing prices of those competitors.

Moving from a Price Range to a Listing/Offer Price

The CMA concludes with a price range for the subject—but a listing or offer price needs to be a single number. In addition to the CMA price range, you and your client will want to consider several market averages in arriving at a list price:

- **Absorption rate**
  As discussed previously, this rate indicates whether the market is increasing, decreasing, or neutral. A buyer's market might suggest that pricing at the low end of the range is appropriate. A seller's market might suggest that pricing at the high end of the range is a good strategy.

- **Days on market**
  This metric suggests how appropriately priced the competition is. It also helps agents manage clients' expectations about how long it will take to sell their home. If a short selling time is important to them, they might want to price at the lower end of the CMA range.

- **Sales price/list price ratio**
  This ratio helps set appropriate client expectations about how much they will actually receive relative to their asking price. If they have a target minimum amount they are willing to accept, the sales price/list price ratio helps them figure out where to set their asking price.

The seller or buyer will probably ask you what price you would recommend, so you need to have an answer prepared in advance. But it is wise to first ask them what they think:

- "*Ms. Seller, after looking at the market information and competition, what list price from the range do you think is right for your home*?"
- "*Mr. and Mrs. Buyer, after considering the market data and similar homes, what offer price from the range seems reasonable to you*?"
- "*Mr. and Mrs. Seller, the market is indicating the value of your home to be between $x and $x.*
- *Currently, homes in our marketplace are selling for 96 percent of list price. Based on these numbers, where would you want to list?"*

Getting to Agreement

Your goal is to reach agreement with the seller or buyer on a listing or offer price for the home. If they select a figure from within the CMA price range, this goal is accomplished. If not, further discussion is needed.

Ask the seller or buyer to explain their thinking if they suggest a price outside the CMA range. They might reveal one of the common client misconceptions about value, which you can then address, always supporting your response with the facts presented in the CMA.

In addition to agreeing on price, agents and listing clients should try to reach some common understanding about how much and at what intervals the list price will be adjusted if offers do not materialize at the original asking price.

When Sellers and Buyers Disregard Your Pricing Recommendations

When sellers are determined to price their property—or when buyers are determined to make an offer—well outside the range suggested by the CMA, agents should obtain a written, signed statement from them acknowledging that they have independently decided to do so despite agent's advice.

Misconception about Price	Possible Agent Response
Seller: "We can always come down in price, but we can't go up! Let's start at a higher number."	Explain that homes priced above what the market indicates are apt to take longer to sell, with accompanying stress, opportunity costs, and real costs to owners. Homes that languish on the market also tend to get passed over for consideration by potential buyers the longer they are listed.
Seller: "I've heard the market is hot right now, so I want to price my home aggressively." or **Buyer**: "I've heard this is a buyers' market, so I want to get a bargain."	Use the absorption rate to demonstrate whether the market is buyers', sellers', or neutral.
Seller: "We completed a $XX remodel of the kitchen last year, and that cost should be added to the suggested price range."	Clarify the difference between cost to the seller and value to the prospective buyer. Explain that the CMA uses comparables that also include the upgrade in question (or have been adjusted for it), so this value is already reflected in the suggested price range.
Seller or **Buyer**: "Zillow® says the house is worth more [less] than what your price range shows."	Fortunately, you also checked Zillow® in advance and are ready for this question! Explain that AVMs might contain incomplete or out-of-date information. They do not adjust for issues such as condition of the property and sales concessions. For these reasons, their price conclusions might not be accurate.
Seller: "My neighbor's very similar home sold for more than your price range."	If the neighbor's home is a true comparable, it should be in your CMA and you will be able to show the client the adjustments that likely contributed to its higher selling price. If you disqualified it as a comparable, you will be able to explain that as well—for instance, the home sold too long ago and doesn't reflect the most current market conditions. If public information was not available on the house, explain that only known, verifiable information can be used in forming value opinions.

Exercise 4.1 Recommending a List Price

Based on the market value range you determined in Exercise 3.2 (see page 68), what list price would you recommend to a seller and why? What details would you use to persuade a seller not to list above the price range suggested by the CMA?

PRICING STRATEGIES:

Mastering the CMA

5: Working with Appraisers

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Learning Objectives

At the conclusion of this Module, you will be able to:

- Recognize the purpose of appraisals and the scope of the appraiser's role.
- Describe how real estate agents can work constructively with appraisers.
- Assess an appraisal and proceed appropriately when you think it contains inaccuracies.

The appraisal can confirm—or refute—the validity of the offer/list price for a home. As such, the appraisal process can be a tension point for all parties to a transaction. This Module looks at the purpose of appraisals, the appraiser's role, and how agents can work constructively with appraisers and clients through the appraisal process.

Exercise 5.1: Pop Quiz: Working with Appraisers

Answer the following questions to gauge your baseline understanding of the role of appraisers and appraisals.		
1.	Appraisers might use an income approach when forming a value opinion of residential property.	☐ **True** ☐ **False**
2.	In a residential property sale, the appraiser typically works for the buyer.	☐ **True** ☐ **False**
3.	The appraisal report should include the identity of the client.	☐ **True** ☐ **False**
4.	To avoid conflict and conflicts of interest, real estate agents should avoid communicating directly with appraisers about pending transactions.	☐ **True** ☐ **False**
5.	When a real estate agent feels that an appraisal is inaccurate in some way, he or she should contact the appraiser to request a correction.	☐ **True** ☐ **False**

The Appraiser's Role and Responsibilities

Real estate agents should understand the role and responsibilities of appraisers so that they can educate their clients about the critical appraisal step in residential home sales.

Appraisals Compared to CMAs

In content, appraisals are similar to CMAs, but their purpose is different. The following chart summarizes the similarities and differences between these two forms of value opinions.

	Appraisals	CMAs
Purpose	Used to value collateral in real estate transactions. Required for most federally related transactions above $250,000. Exceptions include transactions in which no new money is involved.	Helps to identify or project a home's listing or selling price. Helps sellers choose a listing price and buyers choose an offer price. In some states, CMAs can be used for other purposes such as loan modifications, short sales, foreclosures/REO purchases, value trend analysis, mediation, and negotiation.
Core Content	A property value opinion based on one or more valuation methods	A property price opinion based on one or more valuation methods
Primary Customer	Mortgage lenders and servicers	Home sellers and buyers
Creators	Licensed appraisers	Licensed real estate agents and brokers

What Appraisers Do

In a nutshell, an appraiser provides an opinion of value. To do so, he or she uses the following general process:

❶ Based on the specific assignment, determine the appropriate scope of work, including the following:

- What type of property inspection is needed (interior, exterior only, or none)
- What approaches to value are required (sales comparison approach, cost approach, or income approach)
- Any lender-specific requirements

❷ Inspect the property, if needed.

❸ Research various resources for information about the subject and market area, including county and municipal records, MLS records, and other data services.

❹ Review recent sales and listings of comparable properties, in much the same way that agents do when they prepare CMAs.

❺ Use an appropriate approach, or combination of approaches, to develop an opinion of the property value. There are three main approaches:

- **Sales comparison approach**: this approach uses recent sales of comparable properties. Characteristics such as the living area of the home, land area, style, age, quality of construction, number of bedrooms and bathrooms, and presence or absence of a garage are analyzed and compared. This is often the primary approach used in appraising a residential property.
- **Cost approach**: this approach reflects the appraiser's opinion of the current cost to construct the existing house, minus any estimated depreciation, plus the value of the land. This approach is more relevant for newer homes or home features that have little or no depreciation.
- **Income approach**: this approach generally is used on properties that have some income-generating potential. In a residential context, this would include properties that have two, three, or four living units. It typically is not used for one-unit homes in neighborhoods where residences are primarily owner-occupied.

❻ Prepare an appraisal report that contains sufficient information for the intended users to understand and use it.

Who the Appraiser Works For

In a residential property sale, the appraiser works for the mortgage lender. The mortgage lender orders the appraisal and is the appraiser's client. Sometimes a lender will use an appraisal management company to manage the appraisal process. An AMC will order an appraisal on behalf of the lender. Some lenders order the appraisal directly from an appraiser.

The homebuyer receives a copy of the appraisal. The Equal Credit Opportunity Act requires creditors to automatically send a free copy of home appraisals and all other written valuations on the property after they are completed, regardless of whether credit is extended, denied, incomplete, or withdrawn.

Steps in Working with the Appraiser

Real estate agents and appraisers are not opponents. Each plays a critical role in the transaction. Each is bound by legal and professional obligations that circumscribe their work. Agents can do their part to ensure a constructive working relationship with appraisers and an efficient appraisal process.

Meet the Appraiser

For a residential sale, the appraiser typically needs to inspect the property and will contact the seller or agent to make arrangements to do so. You should meet the appraiser at the property and be prepared to answer any questions he or she might have about the property or neighborhood. Allow the appraiser the necessary space and time to complete the inspection.

Prepare Appraiser's Package

Prepare an Appraiser's Package in advance and have it available for the appraiser at the property.

Appraiser's Package Contents

- ✓ Plats
- ✓ Surveys
- ✓ Deeds
- ✓ Covenants
- ✓ HOA documents
- ✓ Floor plans
- ✓ Specifications
- ✓ Inspection reports
- ✓ Neighborhood details
- ✓ Recent similar-quality comparables
- ✓ Detailed lists and dates of upgrades, remodels, and costs
- ✓ Energy-efficient features

Agents are allowed to communicate with the appraiser and provide additional property information, including a copy of the sales contract.

Appraisal Tools

Agents can find a wealth of agent resources, legal information, and field guides and toolkits about the appraisal process at ***www.realtor.org/appraisal/appraisal-tools***.

Return Appraiser Calls

The appraiser might have follow-up questions after visiting the property. Be sure to respond to such requests promptly. It is in your and your client's best interest for the appraiser to have complete and accurate information sooner rather than later.

A good appraiser, in a rapidly changing market, might contact you regarding pending sales or sales that have closed but for some reason have not yet been closed out in the MLS. If an appraiser asks you about pending sales, please be certain to obtain your client's permission before sharing that information.

How to Read an Appraisal Report

There is no single, universal form used for appraisals, but Fannie Mae and Freddie Mac (the Federal Home Loan Mortgage Corporation) have developed residential appraisal report forms that many appraisers and AMCs use exactly or with minor variations. Regardless of the format or style, appraisal reports consistently include certain information.

Interpreting an Appraisal Report

A credible appraisal contains certain essential elements. You should be able to locate all of the following in the appraisal report:

- Clear identification of the property appraised
- Description of the appraiser's scope of work
- The identity of the client and any other intended users of the report
- The intended use of the report
- The definition of value used
- The effective date of the value
- Relevant characteristics of the subject (Relevant characteristics is how appraisers typically refer to the concept of market expectations—what a typical buyer would expect to find for the property)
- Identification of the method(s) used to value the property
- Presentation of the method(s) used to value the property
- Description of the neighborhood and market conditions for the neighborhood
- The appraiser's final value opinion of the property

An appraisal that uses the sales comparison approach to valuation (typical for residential transactions) is based on comparisons between the subject and comparables. In such an appraisal, you should see tables of comparable properties and their relevant characteristics, with adjustments made as needed. You might even see some of the same comparable properties in the appraisal report that you used in developing your CMA of the property.

Red Flags in an Appraisal

Most appraisers are ethical and competent, and most appraisals are accurate. Occasionally, however, agents and homeowners might have reason to believe an appraisal is sufficiently flawed that it does not accurately estimate a property's value. Before jumping to conclusions, agents should look for the following red flags:

- **Incorrect data**
  The address, parcel number, flood plain number, and/or census track number are wrong.

- **Incorrect descriptions**
  The house, as described, does not appear to be the subject property. Incorrect data and incorrect descriptions can happen when an appraiser copies a previous report as the basis for a new appraisal but forgets to redact the incorrect data or update it.

- **Boilerplate content that is now incorrect**
  For example, a neighborhood description or a description of the current market conditions might be boilerplate.

- **Problem comparables**
  Comparable sales that are older than is preferred, are at a greater distance, are not arm's-length, or are not logical.

- **Inconsistent and incorrect adjustments**
  Adjustments that either don't make sense or are not consistent.

- **Illogical reconciliation of market data**
  A reconciliation of market data that doesn't make sense—For example, of the three comparables, comp #1 required only 1 percent net and 3 percent gross adjustments; comp #2 required only 3 percent net and 5 percent gross adjustments; comp #3 required 20 percent net and 25 percent gross; yet this was the comparable the appraiser reconciled to. Reconciliation is not an average of market data, but the appraiser should reconcile to the most similar comp or comps. Here is an example of typical commentary regarding

reconciliation in an appraisal: "Comp #1, which required the least net and least gross adjustments, is considered most similar to the subject. Its adjusted value is $229,500; comp #2, which was extremely close, has an adjusted value of $231,000; I have reconciled between these comparables at $230,000."

When a Property Appraises Below Offer Price

A lender is unlikely to offer a mortgage above the appraised value amount. So when a home appraises below the buyer's offer price, it sets in motion a variety of possible responses. At a minimum, the buyer and seller must begin negotiating terms again; in a worst-case scenario, the buyer walks away from the deal altogether.

Distressed Markets and "Low" Appraisals

Real estate agents and sellers are often—understandably—unhappy when appraisals come in lower than the offer price on the home. It is important to remember that appraisers, like agents, are bound by legal, professional, and ethical obligations. USPAP requires appraisers to research "such comparable data as are available to the appraiser in the normal course of business." That means appraisers must look at all the comparables. If the market is being run by investors, and short sales and foreclosures are making up the market, the appraiser cannot ignore relevant market data—he or she must use these comparables in forming a value opinion. If short sales or foreclosures are an anomaly, they shouldn't be used, but if they are very prevalent, the appraiser will have to use them.

Challenging an Appraisal

After reading and evaluating the appraisal, you might feel that it contains inaccurate information or is missing pertinent information about the subject or comparables. If you think the appraisal is inaccurate in any way, the procedure for requesting corrections is to contact the appraiser's client (the mortgage lender) in writing.

In your written inquiry, request that your concerns be addressed by the appraiser. The appraiser should then review the appraisal. If he or she finds that additional credible information is relevant to the appraisal assignment, the appraiser should provide a revised appraisal with comments that address your concerns.

Once an appraisal assignment is completed and sent to the appraiser's client, an appraiser may not discuss the results of the report with anyone but the client who ordered the appraisal, or parties designated by the client.

The Long Life of an FHA Appraisal

Real estate agents and sellers need to be aware of the long life of FHA appraisals, and their potential effects for pricing property.

An FHA appraisal stays with a property for 6 months. Suppose a property appraises for $2,000 less than the offer price, the seller does not reduce the price, and the transaction fails. If this property sells FHA again in the next 6 months, that same appraisal will be used again. The agent should have sufficient market knowledge to guide the seller on this. What percentage of transactions in this price range sell FHA? If the percentage is significant, and depending on the seller's situation, taking the lower price in the beginning might have been a better decision.

In addition, a problem exists if this situation occurs in a changing market. The 6-month-old appraisal should be adjusted if the market is increasing and the agent or seller needs to discuss with the lender how the appraisal might need to be challenged. Conversely, if the market is going down, the argument could be made that the new value should be more than $2,000 less than the old appraisal.

PRICING STRATEGIES:

Mastering the CMA

6: Honing Your Pricing Habits

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Learning Objectives

At the conclusion of this Module, you will be able to:

- Recognize strategies and tactics for keeping up to date on your markets
- Recognize common client misconceptions about price
- Employ best practices for pricing properties in your daily work

Having considered CMAs and their components in some detail, it's time to take a step back and look at some general strategies and tactics for sharpening and maintaining your pricing skills.

Listening to the Market

Keeping up to date with their markets is a critical and never-ending process for successful real estate agents and fundamental to pricing properties accurately.

Staying Up-to-Date on Market Changes

There is no magic to staying abreast of market conditions—diligence, attention, time, and effort are required. Agents must develop—and maintain—the tools and resources they need to understand their markets both intuitively and analytically. Having a "feel" for your markets is a good thing; being able to quantify and support that feel for clients is equally important.

Successful agents employ a variety of strategies to stay up to date on markets. Most MLSs have the ability to analyze the market to keep your clients up to date on market changes, including tools that can show you:

- Percentage of list price received
- Days on market
- Absorption rate (months' supply of inventory)
- Range of properties that are selling, sitting, and expiring
- Ratio of new listings coming on the market versus those going off
- Median sales price—going up or down
- Number of closed sales as compared with previous months—trends

Revisiting Historical Data

“What’s past is prologue,” wrote William Shakespeare, meaning that previous events set the stage for current situations. Whenever real estate agents prepare a CMA, they are revisiting historical data such as the sales prices of recently sold homes and absorption rates.

CMAs are focused on short-term trends—the immediate market. But agents also need to recognize and understand longer-term trends. Absorption rates are a good example this. Knowing the absorption rate for a particular house category in a particular market 1 year ago, 2 years ago, 5 years ago, and so on, can begin to reveal patterns of neighborhood growth, decline, or re-development.

Retain your data analyses for future reference and reconsideration. The CMA you prepared for a buyer several years ago might help you generate a listing price range when that client decides to sell. This does not mean that you can use the same CMA and data for both tasks. But the old CMA will point to comparables that might be useful in the new analysis.

Developing Human Resources

A single person cannot hope to master all the complexities of residential real estate. Wise real estate agents develop personal contacts and relationships that can help them keep current with the market and fill in their knowledge gaps about pricing:

- More experienced agents can help you refine your pricing skills and interrogate your assumptions and approaches in developing CMAs.
- Agents in other geographical areas can provide insight when you must consider comparables outside the subject neighborhood.
- Contractors and home inspectors can provide information about repair, replacement, and building costs when you are using a cost approach to adjust comparables or estimate cost of needed changes to the subject home.
- Lenders can help you keep abreast of changes in mortgage rates, products, and practices that impact affordability.
- Builders can provide pricing information about homes that often are not listed in the MLS or public records, as well as information about building costs.
- Appraisers can confirm or challenge the value of specific adjustments.

Following Industry News

There are dozens of resources—or more—for staying up to date on industry and market trends; following are just a few of the most highly regarded:

- National Association of Realtors (www.realtor.org) for news, research, and statistics, among a wealth of other industry and professional information and resources.
- Joint Center for Housing Studies of Harvard University (jchs.harvard.edu/) for housing policy issues. Among other information, JCHS publishes an annual *State of the Nation's Housing* report.
- Freddie Mac (www.freddiemac.com) for economic and housing research.
- Bankrate (www.bankrate.com) for national average mortgage rate daily and average mortgage rates and points in top 10 markets.
- The S&P/Case-Shiller Home Price Indices (us.spindices.com/index-family/real-estate/sp-case-shiller), which measure U.S. residential real estate prices. The indices track changes in the value of residential real estate nationally and in 20 metropolitan markets.

Exercise 6.1: How Do You Stay Up to Date?

List three resources you have used, other than the ones listed above, that you find helpful in staying up to date on your markets.

List three resources that you plan to explore or develop in the next 6 months to help you keep up to date on your markets.

Educating Clients

Continuously pursuing your own professional development with respect to value and pricing is a challenge. Educating clients about these issues can be even more challenging. Clients often lack the perspective, terminology, or experience to appreciate the forces that impact pricing, and it is up to their agent to help them understand.

Seven Deadly Seller Sins

Several seller mistakes or misconceptions occur rather predictably in residential real estate, in particular:

❶ Pricing higher than the competition.

❷ Refusing reasonable offers early on.

❸ Not putting the property in the best possible condition for sale.

❹ Making showing the property difficult.

❺ Not recognizing that a seller's home is a buyer's house (a commodity with no emotional attachment).

❻ Blaming the agent for the market.

❼ Not reducing the price in a timely manner, causing market aging.

Advantage accrues to agents who anticipate these "sins" and help their clients overcome them.

Five Buyer Bloopers

Buyers, also, are prone to certain transgressions:

❶ Believing AVMs have the right value.

❷ Listening to people who bought houses years ago—the market has changed.

❸ Believing people who insist that every house is overpriced by X%.

❹ Not listening to their agents when they explain sellers' market conditions.

❺ Not getting pre-approved prior to looking at properties, and then finding they can't afford what they want; then expecting the seller to come down for them.

What you've learned in this course should help you especially to educate sellers about the drawbacks of pricing higher than the competition and the fallacy of blaming the agent for the market. With a well-documented CMA in hand, you are able to show the seller the nature of the competition and explain, with concrete data, the dangers of pricing above it. The parallel for a buyer client is that you can show the risk of making an offer too far below the market price. For sellers and buyers, you are able to demonstrate that the market dictates pricing . . . not the whims of agents or the dreams of buyers and sellers.

When Homes Sell Quickly: "I Should Have Asked More!"

The flipside of a listing languishing for months is one that sells promptly at or near its listed price. Sellers might be quick to feel remorseful in this situation, thinking they could have gotten a higher price, and they might direct their remorse at you, their agent. Agents who have done their due diligence on pricing can explain that a prompt sale indicates that the home was priced appropriately for the market, which resulted in a timely sale.

Sellers in the Driver's Seat

Another good way to educate your sellers—and keep them informed of what is happening in the market—is to put them into your MLS prospect search as if they were buyers for their own home. They will then get updates on new listings, price reductions, and other relevant data in real time. Seeing the market mechanics with their own eyes is often more compelling than hearing it filtered through you. This strategy will also assist you in keeping the lines of communication open with them if it becomes necessary to revisit price.

What Clients Can and Cannot Control

Educating your clients about pricing includes advising them what they can and cannot control. Understanding their power—and the limits of their power—to affect the price of the home should help reduce their stress and increase their satisfaction with the entire transaction process.

Clients can control:

- **Putting the property in the best possible condition for sale**
  Repairs, cleaning, de-cluttering, and staging all contribute to placing the home in the best possible light and supporting the listing price.

- **Facilitating showing of the property**
  In a buyer's market, a listing that is difficult to show due to seller constraints is in a losing position relative to the competition. In any market, most potential buyers are more at ease and receptive to viewing the home when the owners are absent.

Clients cannot control:

- **The economic climate**
  The economic climate affects the decisions and capabilities of both sellers and buyers. Aspects of the economic climate include interest rates, the availability of money, the ease or difficulty of obtaining a mortgage, federal monetary policy, and employment rates.

- **The supply of available homes**
  An abundance or deficit of competition is not within the seller's or buyer's control, nor is the corresponding effect on pricing.

The Pricing Pyramid

Another tool for explaining to sellers the dangers of overpricing is the pricing pyramid. A quick Google search turns up multiple versions of this familiar infographic, but a typical representation looks like this:

The pricing pyramid illustrates that as list price increases above market value, a smaller percentage of potential buyers will look at the home. A picture is sometimes worth 1,000 words. This visual tool can help sellers quickly understand the advantages of staying within the price range determined in the CMA when settling on an asking price.

Revisiting Price

When a listing is languishing in spite of timely and reasonable adjustments to the listing price, agents must be prepared to revisit their original pricing analysis, including the following tactics:

- If you used competition in your original CMA, revisit your sources to see if any of them have sold and, if so, at what prices.
- Review current market data, including list price/sales price ratio and days on the market.
- Prepare an updated CMA for the seller using current comps
- Ask the agents who have shown the listing what feedback they have received.
- Talk to the clients about having an appraisal done.

Legal and Ethical Requirements

Agents must observe a number of legal and ethical requirements when pricing properties. Module 1 discussed these in the context of Article 1 of the REALTOR® Code of Ethics. Here, we look at confidentiality and record-retention issues.

Confidentiality Obligations

CMAs are subject to confidentiality requirements as specified by state law. In addition, the REALTOR® Code of Ethics, Article 1, Standard of Practice 1–9, addresses the issue of agency confidentiality:

Standard of Practice 1–9

The obligation of REALTORS® to preserve confidential information (as defined by state law) provided by their clients in the course of any agency relationship or non-agency relationship recognized by law continues after termination of agency relationships or any non-agency relationships recognized by law. REALTORS® shall not knowingly, during or following the termination of professional relationships with their clients:

1) reveal confidential information of clients; or

2) use confidential information of clients to the disadvantage of clients; or

3) use confidential information of clients for the REALTOR®'s advantage or the advantage of third parties unless:

a) clients consent after full disclosure; or

b) REALTORS® are required by court order; or

c) it is the intention of a client to commit a crime and the information is necessary to prevent the crime; or

d) it is necessary to defend a REALTOR® or the REALTOR®'s employees or associates against an accusation of wrongful conduct.

Information concerning latent material defects is not considered confidential information under this Code of Ethics. (Adopted 1/93, Amended 1/01)

Records Retention

Remember that CMAs fall under the same retention guidelines as any other real estate–related documents. You must follow all state license law requirements in retaining CMAs.

If no retention-of-documents guidelines are part of your license law, it is recommended that you retain CMA records for a minimum of 1 year.

It is also recommended that additional information be retained in your file. For example, if there were comparables that you considered but did not use in the CMA, keeping a copy of them with a note detailing why they were not used might save you from potential liability if a client later questions a price opinion.

Exercise 6.2 Your Challenges in Pricing Discussions

At the beginning of this course, you were asked to identify two or three challenges you encounter in pricing discussions with buyers and sellers. Thinking back on them, what strategies or tactics discussed in this or any of the previous Modules do you think will help most in addressing those challenges, and why?

Conclusion

Thank you for your active participation in this course. In summary, we have discussed the following topics:

- The purpose and benefits of CMAs
- Terminology of pricing and valuation
- The Code of Ethics as it relates to pricing
- How to identify appropriate comparables, and where to find information about them
- The role of supply and demand in pricing
- How to adjust comparables
- Specific challenges and special situations in making adjustments
- Guiding clients through the CMA
- Working with appraisers
- Honing your pricing skills and practices

Key Learning Points

Write down one or two ideas, insights, or suggestions you will take away from this course.

Questions and Answers

Use this time to ask questions about the material discussed during course.

Resources

RPR® Valuation Workbook Sample Pages

West Branch Valley Association of REALTORS®/MLS
EQUAL HOUSING OPPORTUNITY

VALUATION WORKBOOK

[redacted] N Route 44 Hwy, Jersey Shore, PA 17740

Presented by
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Jackson Real Estate
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Jersey Shore, Pennsylvania

This analysis has not been performed in accordance with the Uniform Standards of Professional Appraisal Practice which requires valuers to act as unbiased, disinterested third parties with impartiality, objectivity and independence and without accommodation of personal interest. It is not to be construed as an appraisal and may not be used as such for any purpose.

S A M P L E

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8/12/2015

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Valuation Workbook

File ID: 5569 N Route 44 Hwy, Jersey Shore, PA 17740

Sales Comparables Analysis Summary

Result of Sales Comparison Analysis
$194,419 (or $75 / sq ft)
Last Analysis Update: 8/12/2015

Number of Comps Chosen
6

Comps Range
$139,900 – $235,000

Current Range of Comparable Homes

Compares the estimated value of the subject property with the comps selected in the Sales Comparison Analysis.

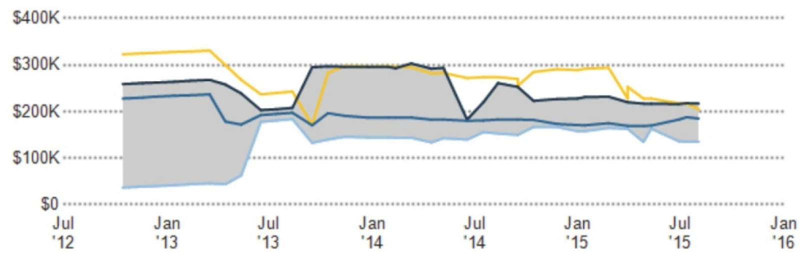
Comps:

- Subject Property (Appraisal Price)
- For Sale (List Price)
- Pending (List Price)
- Recently Sold (Sold Price)
- Distressed (List Price)
- Pending Distressed (List Price)
- Off Market (Estimate)

Historical Range of Comparable Homes

Compares the estimated value of the subject property with the highest, median and lowest comps selected in the Sales Comparison Analysis.

- Subject Property Estimated Value
- Highest
- Median
- Lowest



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Valuation Workbook

File ID: 5569 N Route 44 Hwy, Jersey Shore, PA 17740

Comps Selected In Analysis					
Address	5569 N Route 44 Hwy Jersey Shore, PA 17740	5519 N Route 44 Hwy Jersey Shore, PA 17740		100 Ramsey Dr Jersey Shore, PA 17740	
Status	Subject Property	1 Public Record		2 Public Record	
MLS Name	West Branch Valley Board Of REALTORS® MLS	West Branch Valley Board Of REALTORS® MLS		West Branch Valley Board Of REALTORS® MLS	
MLS Listing ID	WB-73561	WB-70665		WB-72577	
Proximity		.05 Mi. S		1.62 Mi. N	
Value	$194,419	$172,000		$165,000	
Price Per Sq. Ft.	$75	$62		$114	
Sale/Finance Concession	–	–		–	
Property Type	Single Family Residence	Single Family Residence		Single Family Residence	
Property Subtype	Residential - Single Family	Residential - Single Family		Residential - Single Family	
Total Rooms	7	7		6	
Total Rooms Above Grade	–	–		–	
Bedrooms	4	4		3	
Bedrooms Above Grade	–	–		–	
Living Area sq ft range (low)	–	–		–	
Living Area sq ft range (high)	–	–		–	
Total Baths	2.0	1.1		1.0	
Total Baths Above Grade	–	–		–	
Full Baths	2	1	+$3,000	1	+$3,000
Full Baths Above Grade	–	–		–	
Partial Baths	–	1	–$1,000	–	
Partial Baths Above Grade	–	–		–	
Living Area (sq ft)	2,590	2,764		1,448	
Living Area Above Grade (sq ft)	1,500	1,820	–$6,400	1,448	+$7,440
Basement (sq ft)	1,090	944	+$2,190	–	+$16,350
Finished Rooms Below Grade	–	–		–	
Lot Size	1.38 acres	0.7 acres	+$1,360	0.84 acres	+$1,080
Lot Dimensions	irregular/see deed	100x300		36590 SF	
Garage	Garage-Double Attached	1	–$2,000	1	+$2,000
Garage (sq ft)	–	–		–	
Pool	–	–		–	
Location	Residential	Residential		Residential	
Tenure	–	–		–	
View	–	–		–	
View Factors	Mountain, Residential	Residential, Woods		Mountain	
Style		Ranch		Ranch	
Quality of Construction	–	–		–	

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West Branch Valley Association of REALTORS® MLS | Valuation Workbook

File ID: 5569 N Route 44 Hwy, Jersey Shore, PA 17740

Local Market Conditions: Summary

The Local Market Conditions tables summarize trends and statistics in the local market: the area around the subject property that was searched for comps in the Sales Comparison Analysis.

Results shown in this report are derived from a search of MLS records for 3 to 5 bedroom, 1 to 3 bathroom, 1,942 to 3,238 sq. ft., single family residence listings located within 0.8 miles of the subject property.

Inventory Analysis	Last 7-12 Months (6-month period)	Trend (span)	Last 4-6 Months (3-month period)	Trend (span)	Last 3 Months (3-month period)	Trend (Total)
Sales	1	– ↓	–	–	–	– ↓
Absorption Rate (sales/month)	0.17	– ↓	–	–	–	– ↓
Total # of Active Listings (on last day)	–	–	2	200% ↑	4	–
Months of Housing Supply	–	–	–	–	–	–
Median Comp Sales Price	$172,000	137% ↑	–	–	–	106% →
Median Comp Sales Days in RPR	–	–	141	67% ↓	94	–
Median Comp Listing Price	–	–	$234,945	78% ↓	$182,495	–
Median Comp Listing Days in RPR	–	–	–	–	–	–
Median Sales Price as % of List Price	0.96%	–	–	–	–	–

Comparable Properties in Local Market	Currently for Sale	Sales Within the Last 12 Months
Count	4	–
Range	$82,500 – $269,900	–
Average	$179,348	–
Median	$165,000	–

Property Attributes	Minimum	Maximum	Average
Year Built	1940	1976	1959
Living Area (sq ft)	930	2,928	2,351
Lot Size	13,068	60,113	34,151
# Samples	5	–	–

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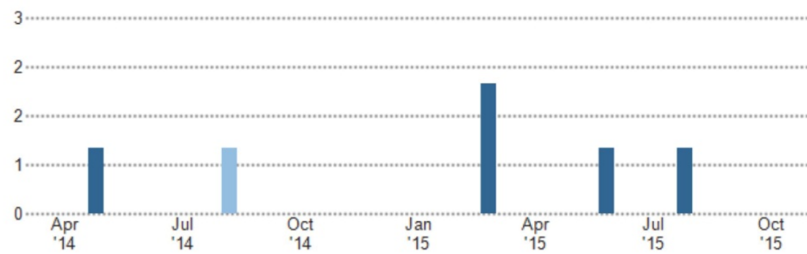
Total Sales and Listings

This graph compares the number of sales with the number of listings in the local market.

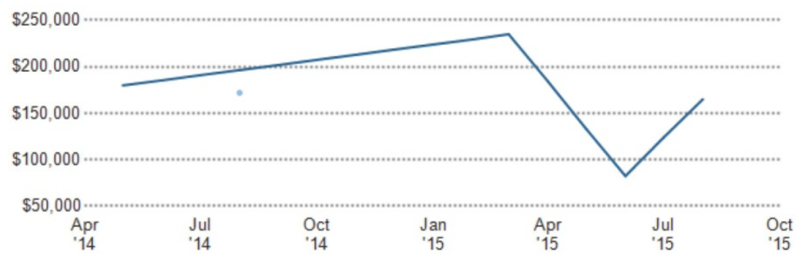
- Listings
- Sales



List Price vs. Sales Price

This graph compares the median listing price with the sales price in the local market.

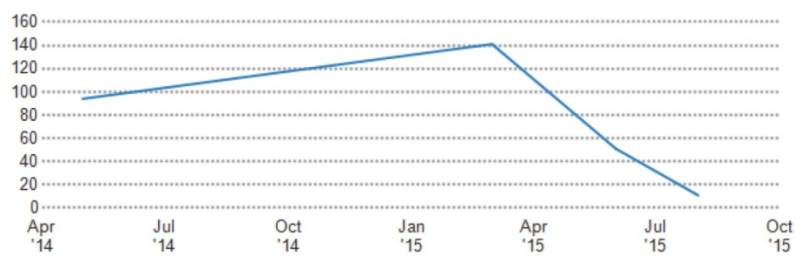
- Listing Price
- Sales Price



Median Days in RPR

This graph displays the median days in RPR in the local market.

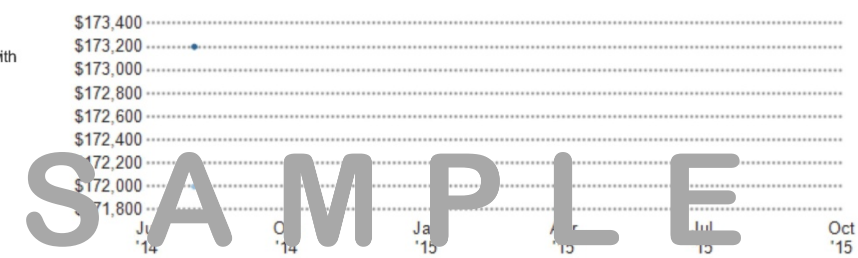
- Days in RPR



Sales Price vs. RVM

This graph compares the sales price with the RVM in the local market.

- RVM
- Sales Price



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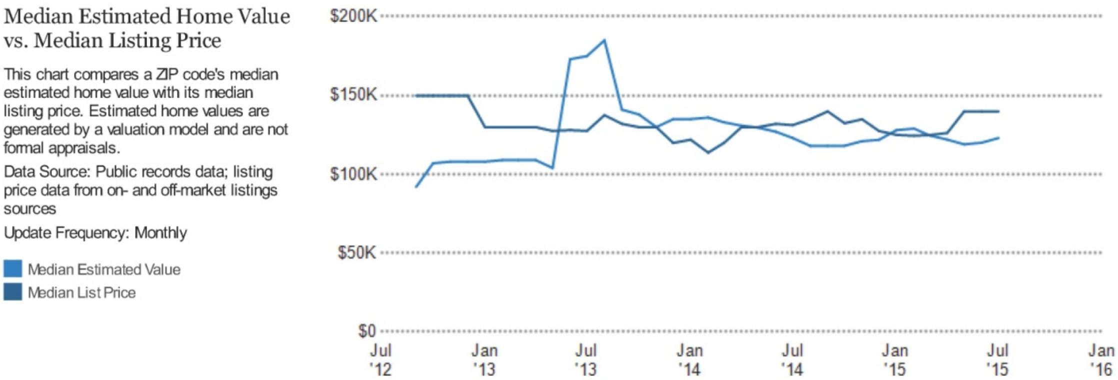
General Market Health Charts

Median Estimated Home Value vs. Median Listing Price

This chart compares a ZIP code's median estimated home value with its median listing price. Estimated home values are generated by a valuation model and are not formal appraisals.

Data Source: Public records data; listing price data from on- and off-market listings sources

Update Frequency: Monthly

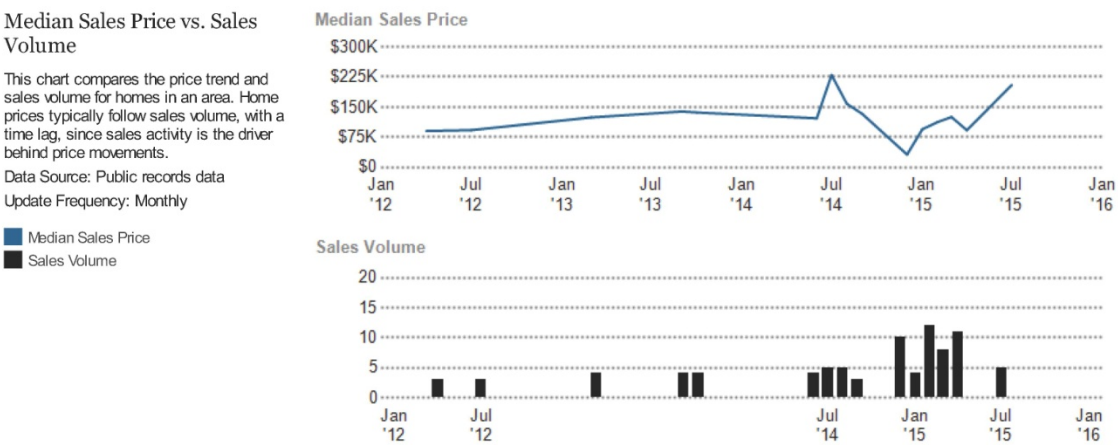


Median Sales Price vs. Sales Volume

This chart compares the price trend and sales volume for homes in an area. Home prices typically follow sales volume, with a time lag, since sales activity is the driver behind price movements.

Data Source: Public records data

Update Frequency: Monthly



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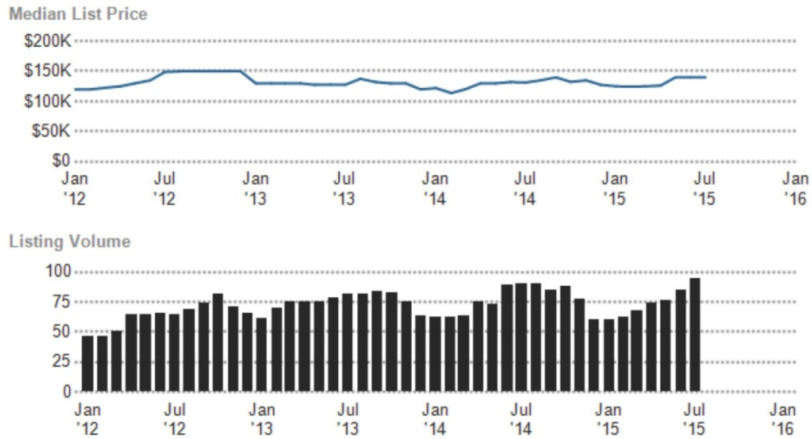
Median Listing Price vs. Listing Volume

This chart compares the listing price and listing volume for homes in an area. Listing prices often follow listing volume, with a time lag, because supply can drive price movements.

Data Source: On- and off-market listings sources

Update Frequency: Monthly



Median List Price

Listing Volume

Listing Inventory

This chart shows the number of active listings in a ZIP code.

Data Source: On- and off-market listings sources

Update Frequency: Daily

ZIP Count Listings by PropertyType

Price per Bedroom of Homes Sold

This chart shows the distribution of homes reported sold in the past six months at different prices per bedroom in the area of your search. The amount shown for the subject property is sold data where available, or the property's estimated value when sales data are unavailable (such as a non-disclosure state) or provided in range format.

Data Source: Public records and MLS data where licensed

Update Frequency: Monthly

This House

Comps

SAMPLE

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Glossary

A

Absorption analysis
A study of the number of units of residential or nonresidential property that can be sold or leased over a given period of time in a defined location.

Agency
Refers to the relationship between a principal and an agent whereby the principal, expressly or by implication, authorizes the agent to work under the principal's control and on the principal's behalf (http://en.wikipedia.org/wiki/Agency_(law)).

Agency, Dual
Dual agency occurs when the same agent represents both the seller and the buyer. Individual state laws vary and interpret dual agency rather differently.

Agent
The licensed real estate salesperson or broker who represents buyers or sellers.

Appraisal
The estimation of a home's value based on sales of comparable properties in the neighborhood is one method of doing an appraisal. Appraisals are conducted by a licensed appraiser and are used in the loan process to ensure that the value of the home is equal to or greater than the purchase price.

Appraiser
A person who possesses the education, training, and experience necessary to accurately render an opinion as to the value of real estate.

B

Broker price opinion (BPO)
(1) The real estate broker's opinion of the expected final net sale price, determined prior to the acquisition of the property (www.realtor.org).

(2) The term 'broker price opinion' means an estimate prepared by a real estate broker, agent, or sales person that details the probable selling price of a particular piece of real estate property and provides a varying level of detail about the property's condition, market, and neighborhood, and information on comparable sales, but does not include an automated valuation model. www.gpo.gov/fdsys/pkg/PLAW-111publ203/content-detail.html

C

Client
The party or parties who engage an appraiser (by employment or contract) in a specific assignment.

Code of Ethics
Rules of ethical conduct, such as those that govern the actions of members of a professional group.

Comparative market analysis (CMA)
(1) Comparative market analyses are used to help establish a realistic price range for a home. A CMA usually includes a review of comparable properties in the immediate area currently on the market or that have recently sold (www.mrktusa.com/glossary.htm).

(2) A CMA is an estimate of the home's value compared with others. This differs from an appraisal in that property currently for sale may be taken into consideration (competition for the subject property) (www.ask.com/wiki/ Real_estate_broker/agent).

Competency Rule
An appraiser must be competent to perform the assignment, acquire the necessary competency to perform the assignment, or decline or withdraw from the assignment.

Confidential information
Information that is either identified by the client as confidential when providing it to an appraiser and that is not available from any other source, or classified as confidential or private by applicable law or regulation.

Cost
The total amount spent to acquire or build. May or may not reflect value. Cost is historic and does not vary.

D

Debt reduction
The process of reducing the amount of money owed on an unsecured loan or purchase.

Depreciation
Loss in value due to any cause, including physical deterioration, functional obsolescence, and external obsolescence.

Distressed sales
Generally refers to foreclosures and short sales, selling at discounts of 15 to 20 percent from non-distressed market prices. This can exert a major negative impact on overall market prices (www.realtor.org/research_secured/reinsights/behindthenumbers).

F

Fair market price
The most probable price, as of the date of inspection or other specifically defined date, which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

Fair market value
The most probable price real estate should bring in a sale occurring under normal market conditions.

Foreclosure
A legal process in which a default in payment or other terms of the mortgage note causes the property used as security for the mortgage to be sold to satisfy the debt. The title to the property in the mortgage is passed to either the holder of the mortgage or to a third party.

Foreclosure sale
Property sold to the highest bidder, typically at auction.

Freddie Mac (FHLMC)
A leading, government-sponsored enterprise and publicly-traded company that creates guidelines on suitable properties, down payment, income and credit requirements, and the maximum mortgage amount. The maximum loan limit is reset each year by Freddie Mac and Fannie Mae. Middle-income Americans have access to more affordable rentals and homeownership largely because of Freddie Mac's efforts to keep funds flowing to creditors. Freddie Mac buys, guarantees, and packages mortgages to create securities (www.personal homeloanmortgages.com/mortgage_glossary.asp).

H

Highest and Best Use
The reasonable and probable use of a property that will support the highest present value of the land

L

License law
Refers to individual states' real estate laws, regulations, and the licensing requirements for real estate agents in a specific jurisdiction.

Limiting conditions
Specifications in an appraisal report that restrict the assumptions in the report to certain situations (e.g., date and use of the appraisal, definition of value, definition of surveys used or not used, etc.). (See Fisher and Tosh)

M

Mortgage
A legal document in which real estate is named as the security or collateral for the repayment of the loan. (See Fisher and Tosh)

N

NATIONAL ASSOCIATION OF REALTORS® (NAR)
NAR is comprised of real estate professionals involved in every aspect of the real estate industry, from residential brokers to property managers. NAR has over one million members, including residential and commercial real estate agents, brokers, property managers, and appraisers.

Neighborhood life cycle
The period during which most of the properties in a neighborhood undergo the stages of development, equilibrium, decline, and revitalization.

- Development (growth): Improvements are made, and properties experience a rising demand.
- Equilibrium: Properties undergo little change; also called stability.
- Decline: Properties require an increasing amount of upkeep to retain their original utility and become less desirable.
- Revitalization: Property renovations occur in response to demand; all called rehabilitation. (Cf, Ventolo and Williams)

P

Personal property
Identifiable tangible objects that are considered by the general public as being "personal" (e.g., furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment). All tangible property that is not classified as real estate.

Price
The amount asked, offered, or paid for a property.

Progression
The principle that the value of an inferior property is enhanced if surrounded by properties of greater value.

Q

Qualitative
Pertaining to, or concerned with, quality or qualities.

Quantitative
Pertaining to, or concerned with, measuring quantity.

Quick sale
A quick sale involves buying a property for a price lower than its normal value. This normally happens when the mortgage loan could not be paid by the borrower or home owner. After a couple of months that the debtor failed to pay for the loan, the lender decides to sell the property for a lower price, rather than putting too much pressure on the borrower (http://ezinearticles.com/?What-is-a-Quick-Sale-in-Real-Estate?&id=3703139).

R

Real estate
An identified parcel or tract of land, including improvements, if any.

Real Estate Owned (REO)
If a foreclosure sale is unsuccessful, ownership of the property is transferred involuntarily to the lender.

Real property
The interests, benefits, and rights inherent in the ownership of real estate.

Regression
The principle that a higher-priced property is worth less if located amid lower-priced properties. (See Melanie McLane)

S

Sales comparison approach
One of three approaches to value in appraisal theory. In this approach, value is estimated by comparing similar properties that have sold recently to the subject property.

Sales person
Any person who, for compensation or valuable consideration, is employed either directly or indirectly by a real estate broker to work with a client to sell or offer to sell; or to buy or offer to buy; or to negotiate the purchase, sale, or exchange of real estate; or to lease, rent, or offer for rent any real estate; or to negotiate leases thereof or improvements thereon. Such a salesperson or agent must secure a state license.

Scope of work
The type and extent of research and analyses in an assignment. An appraiser must identify the problem to be solved, determine and perform the scope of work necessary to develop credible assignment results, and disclose the scope of work in the report.

Selling price
The actual price that a buyer pays for a property.

Short sale
As used in MLS rules (Section 7.23, Note 3), a short sale is defined as a transaction where title transfers, where the sales price is insufficient to pay the total of all liens and costs of sale, and where the seller does not bring sufficient liquid assets to the closing to cure all deficiencies.

Supply and demand
The principle that the value of any good or service will rise as demand increases and supply decreases, and fall as demand decreases and supply increases.

V

Valuation
The act of assessing the value or price of a property or investment.

Value
The subjective judgment on the relative worth of something.