

NATIONAL  
ASSOCIATION  
*of* REALTORS®

# PRICING

## *Strategies:*

MASTERING THE CMA

OFFICIAL  
CERTIFICATION  
COURSE

STUDENT MANUAL



NATIONAL  
ASSOCIATION OF  
REALTORS®  
OFFICIAL  
CERTIFICATION



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## Introduction

### COURSE LEARNING GOAL

The goal of Pricing Strategies: Mastering the CMA is to help real estate professionals improve their skills in pricing residential properties, creating and presenting comparative market analyses (CMAs), explaining pricing recommendations, dispelling buyers' and sellers' misperceptions and anxieties about pricing strategies, keeping up to date with market developments, and working with appraisers.

### LEARNING OBJECTIVES

#### 1. CMA BUILDING BLOCKS

- Identify the uses and benefits of CMAs for buyers, sellers, and agents.
- Describe key market value concepts and industry standards that apply to the preparation of a CMA.
- Comply with the REALTOR® Code of Ethics Articles and Standards of Practice regarding preparation of real property pricing opinions.

## 2. GETTING STARTED—SELECTING COMPARABLES

- Identify and select appropriate comparables that are the most like and within acceptable proximity to the subject property based on commonly used standards.
- Identify and access available sources of information on comparables.
- Recognize and overcome challenges to selecting the best comparables.

## 3. COMBINING FACTS AND NUMBERS

- Distinguish between cost- and market-based adjustment approaches and select the most appropriate approach.
- Adjust the values of selected comparables to develop an estimated price range for the subject property and avoid common adjustment challenges and errors.
- Develop a sales or offer price recommendation to present to the seller or buyer.

## 4. PREPARING THE CMA

- Prepare a CMA document that provides the level of detail and depth of analysis required by the buyer or seller.
- Consider the impact of market area information including supply and demand and absorption rate on pricing recommendations.
- Keep up to date on market developments that influence the value of properties by identifying and accessing reliable information sources.

## 5. PRESENTING THE CMA

- Present the CMA to the buyer or seller and explain rationale for pricing recommendations.
- Respond to and allay common misconceptions about price range and strategy.
- Comply with standards for record retention and REALTOR® Code of Ethics Articles and Standards of Practice for maintaining client confidentiality.

## 6. WORKING WITH APPRAISERS

- Describe the purpose and process of a property appraisal and the scope of the appraiser's role.
- Develop skills for working constructively with appraisers and clients through the appraisal process.
- Review an appraisal report and take appropriate action when the report appears to contain inaccuracies.

# EARN THE PRICING STRATEGY ADVISOR (PSA) CERTIFICATION

The Pricing Strategy Advisor is an official certification of the National Association of REALTORS®. The Certification is designed for real estate professionals at all experience levels whether working with buyers or sellers.

**FIGURE A.1** Official PSA Certification Website



## EARN THE PSA CERTIFICATION

- Be a member in good standing of the National Association of REALTORS® (and cooperating association for International participants).
- Complete the Pricing Strategies: Mastering the CMA course and pass the exam (if required in your state for continuing education credit).
- Submit a one-time fee of \$179.

### BENEFITS

- Gain knowledge through education in classroom and online formats.
- Use the PSA logo and title on marketing materials to promote your certification.
- Download a PSA certificate.
- Differentiate yourself as a PSA at [NAR.realtor](https://www.nar.realtor) and [Realtor.com](https://www.realtor.com)®.
- Keep up to date with a quarterly e-newsletter.
- Network on the Facebook PSA private group.

### BONUS!

Pricing Strategies: Mastering the CMA is an approved elective for the Accredited Buyer's Representative (ABR®) and Seller Representative Specialist (SRS) designations and C2EX.

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## MODULE

# 1



### CMA Building Blocks

What is the number one question that both home sellers and buyers ask? Although they may phrase the question differently, both sellers and buyers want to know the same bottom-line answer: the price.

Sellers and buyers expect the real estate professionals they work with to provide on-target, informed, and objective advice on price. Off-target pricing has serious consequences—buyers overpaying, sellers receiving less than market value, and dissatisfied, possibly litigious, clients.

Preparing the CMA is an essential skill for real estate professionals. Working through the process of a comparative market analysis (CMA) provides a timely and objective price range based on market realities. The CMA sets expectations for sellers, guides buyers, and helps real estate professionals develop winning price strategies.

*Pricing Strategies: Mastering the CMA* focuses on building your knowledge base and sharpening your skills so that your sellers and buyers feel they can rely on your recommendations when it comes to pricing property. Although the CMA may be used for a variety of purposes, this course focuses on its purpose in selling and buying residential real estate.

## THE CMA—PROCESS AND PRESENTATION

CMA refers to both the process that real estate professionals work through and the information they present to sellers and buyers. It helps sellers determine an asking price and buyers identify an offer price. When presented to a seller or buyer, the CMA provides objective, market-driven answers to their bottom-line questions. “How much should I ask? How much should I offer?”

### NOT THE SAME: CMAS AND APPRAISALS

CMAs must be prepared by a licensed real estate broker, agent, or salesperson, or a registered, licensed, or certified appraiser. An appraisal must be prepared by a certified appraiser. An appraiser may prepare a CMA, but it is not an appraisal and should not be referred to as one.

## VALUATION SERVICES MATRIX

An overview of the main valuation services used in residential real estate transactions.

VALUATION	DEFINITION	WHO	USE
<b>CMA</b>	An estimate of the probable selling price of a property expressed as a price range	Real estate licensees	<p>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 foreclosures, REO purchases, value trend analysis, mediation, and negotiation. It should not be used solely to value collateral in a real estate transaction for mortgage origination.</p>
<b>APPRAISAL</b>	The act or process of developing an opinion of value based on Uniform Standards of Professional Appraisal Practice (USPAP)	Licensed or certified appraisers	<p>Traditional appraisals are generally used to value collateral in a real estate transaction. A licensed appraiser performs an interior and exterior onsite inspection of the property and uses information gathered from tax records, MLS data, and other reliable sources to arrive at an opinion of value.</p> <p>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 most transactions involving a mortgage. Lenders or servicers determine whether to use appraisals or other methodologies for transactions that are not purchase money.</p>
<b>HYBRID APPRAISAL</b>	An appraisal in which a third-party performs the property inspection and provides the information to the licensed appraiser who completes the appraisal in compliance with USPAP.	Appraiser and non-appraiser	<p>An appraiser performs a hybrid appraisal by reviewing a recent interior/exterior property data report that is provided by a third-party property data collector as well as information gathered from tax records, MLS data, and other reliable sources.</p>

VALUATION	DEFINITION	WHO	USE
<b>DESKTOP APPRAISAL</b>	A valuation that is performed without an interior or exterior inspection of the property.	Appraiser and/or non-appraiser	<p>Loans that meet certain eligibility requirements (single-family, one-unit, primary residence, purchase, LTV ≤ 90%) may be offered the desktop appraisal option.</p> <p>Desktop appraisals are performed without the appraiser or a third-party physically inspecting the property. The value estimate is determined using information gathered from tax records, MLS data, and other reliable sources</p>
<b>AUTOMATED VALUATION MODEL</b>	Service or software that provides property valuations, often based on mathematical modeling	Lender, servicer appraisal staff, investor	Lenders and secondary markets may use an AVM to confirm valuations provided in appraisal report but should not be used to solely value collateral in a real estate transaction for mortgage origination. May be used as a valuation option for other transactions, such as refinances.
<b>BROKER PRICE OPINION<sup>1</sup></b>	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 foreclosures, REO purchases, value trend analysis, mediation, and negotiation; should not be used solely to value collateral in a real estate transactions for mortgage origination.

**Adapted from:** National Association of REALTORS®, Valuation Services Matrix, [www.nar.realtor/appraisal-valuation/valuation-services-matrix](http://www.nar.realtor/appraisal-valuation/valuation-services-matrix)

<sup>1</sup> Where state regulations allow, BPOs and CMAs are technically permitted for purchase-money (mortgage) transactions when the value of the home is less than \$250,000. Lenders, however, seldom use CMAs for this purpose. Federal regulations require federally chartered (national) banks to obtain appraisals prepared by licensed or certified appraisers for real estate loans of more than \$250,000.

### WHAT DOES A CMA ANALYZE?

The CMA compares the subject property—the one being evaluated—with similar properties recently sold and currently on the market. The CMA process analyzes:

- the subject property.
- the subject neighborhood.
- local and regional market information and trends.
- properties similar to—comparable to—the subject property.

This course covers all these aspects of a CMA and focuses in particular on identifying and analyzing comparable properties.

### CMAS FOR SELLERS, BUYERS, REAL ESTATE PROFESSIONALS

Sellers, buyers, and real estate professionals all use and benefit from CMAs.

#### SELLERS

- **SELLERS RECEIVE A FACT-BASED, OBJECTIVE ASSESSMENT OF THEIR HOME'S VALUE.**

A CMA provides the data and reasoning to help sellers see not only the value of their home, but also why that value is accurate.

- **SELLERS DON'T EXPERIENCE THE STRESS AND DISRUPTION THAT CAN OCCUR WHEN HOMES LANGUISH ON THE MARKET.**

When sellers understand the objective logic for valuing their home, they are more likely to list it at an accurate price and experience a quick and efficient sale. A prompt sale avoids much of the stress and disruption of repeated showings. If under pressure to move—for example, for a job transfer or downsizing to a more affordable home—a timely and efficient sale saves sellers further anxiety.

### ➤ **SELLERS ARE PROTECTED FROM UNDERVALUING THEIR HOME.**

A CMA helps protect sellers against undervaluing as well as overvaluing a home. Sometimes sellers undervalue their property, such as when heirs want a quick sale in order to distribute estate assets. On the flip side, every real estate professional has a story (probably many stories!) of sellers who overestimated the value of their home. Consider what happens when sellers accept a high offer, but the appraised value is less than the offer price. 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 attach a high value to their home based on their emotions and pride of ownership.

## BUYERS

### ➤ **BUYERS RECEIVE OBJECTIVE INFORMATION ABOUT HOMES AND LOCAL MARKETS.**

Buyers are often at a great disadvantage in knowing the market value of a home they want to purchase. First-time homebuyers 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 LOSE THE HOME THEY REALLY WANT BECAUSE THEIR OFFER IS TOO LOW.**

Buyers are less likely to make a lowball offer in a competitive market and potentially lose the home to another buyer.



### ➤ **BUYERS ARE LESS LIKELY TO ENCOUNTER PROBLEMS OBTAINING A MORTGAGE BECAUSE THE HOUSE APPRAISES BELOW THE OFFER PRICE.**

Buyers are less likely to make a too-high offer that is eventually scuttled because a lender won't offer a mortgage at that price. And they are less likely to overpay for a home, thus preserving their financial resources for other important home and life expenses.

## REAL ESTATE PROFESSIONALS

### ➤ **LISTINGS DON'T LANGUISH, SAPPING AGENTS' TIME, ENERGY, AND INCOME.**

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

### ➤ **BUYERS ARE LESS LIKELY TO REGRET THE PRICE THEY PAID OR SELLERS THE PROCEEDS RECEIVED—AND BLAME THE REAL ESTATE PROFESSIONAL.**

Complaints about incorrect pricing rank high among the legal claims against real estate professionals. When buyers feel they have overpaid or sellers feel they have undersold, they are apt to feel regretful, angry, and cheated and blame the real estate professionals who guided them.

## REPRESENTING BOTH SELLER AND BUYER?

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 prepare a CMA for the buyer. Lack of a CMA puts the buyer at a disadvantage.

## **COST, PRICE, OR VALUE?**

**In the context of valuation of real property, the terms cost, price, and value are distinctly different concepts, seldom equal amounts, and not interchangeable.**

### **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. For example, a \$15,000 expenditure to reroof a house is a one-time cost.

### **PRICE**

The amount at which a property is currently being marketed or was sold at a specific point in time. Price might or might not reflect market value.

### **MARKET PRICE**

The actual selling price of a property. Buyers and sellers set the market price, which may differ from market value.

### **MARKET VALUE/FAIR MARKET VALUE**

The most likely sale price of a property in an arms-length transaction.<sup>2</sup> Market conditions change constantly and the fair market value set by what the buyer is willing to pay at a moment in time. Fair market value rises or falls, even within a couple of months, based on supply and demand.

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<sup>2</sup> A sale in a competitive and open market where both buyer and seller act prudently and of their own free will and neither is under any undue pressure to complete the transaction. Both are reasonably aware of the good and bad points of the property. The property has been exposed to the open market for a reasonable time. The buyer could easily choose a different property.

### MARKET VALUE ACCORDING TO FANNIE MAE

Fannie Mae—the Federal National Mortgage Association (FNMA) defines market value a bit more formally than the definition provided. According to FNMA, 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.

Because it is the national's pre-eminent supplier of home mortgage funds, Fannie Mae's definition and standards have particular significance in pricing properties.

## CMA BUILDING BLOCKS

### ➤ SUBJECT PROPERTY

The property being evaluated.

### ➤ CONFORMITY

Maximum value is created when the property is in harmony with its surroundings. A property will be worth more if it is similar in design, construction, size, and age to surrounding properties and conforms to existing neighborhood standards.

### ➤ COMPARABLES

Recently sold properties in the market of the subject property that are **substantially alike**. Comparables—comps—provide the basis for determining the market value of the subject property.

### ➤ COMPETITION

A currently listed property that can compete for buyers of the subject property.

### ➤ ADJUSTMENT

The amount added to or subtracted from the sales price of a comparable property to calculate the value of the subject property. Not all comparables require adjustments.

### ➤ CONTRIBUTION

The value of any part of a property is measured by its effect on the whole. Value, however, can decrease as the number of features increases. Compare a three-bedroom home with one bath compared to a three-bedroom with two baths. The second bath will add significant value, but the value of the third bath would not equal the second. The other principle of contribution is apparent in the difference between the value of a swimming pool or indoor basketball court and the value of an updated kitchen or bath. The updated kitchen and bath will add value, whereas in some regions and markets the pool or basketball court might not.

### ➤ REGRESSION

The principle that a higher-priced property is worth less if located amid lower-priced properties.

### ➤ PROGRESSION

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

### ➤ SUBSTITUTION

The maximum value of a property is set by what it would cost to purchase an equal property. Buyers will not pay more for a property than the cost of acquiring it elsewhere.

### ➤ SALES COMPARISON APPROACH

The sales comparison approach is generally the only method used by real estate professionals and is the heart of the CMA process. In the sales comparison approach, the subject property is compared to recently sold comparable properties and adjustments are made for the differences between the subject and each comparable. Appraisers may use this approach or others, such as the cost approach and income approach.

### IMPORTANT COURSE NOTE

The REALTOR® Code of Ethics uses 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 are sometimes 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, real estate professionals may value properties (they are allowed to perform BPOs), and in some states, they may do appraisals.

**Throughout this course, the terms price and pricing refer to the work real estate professionals do in preparing market value opinions for sellers and buyers.**

**Slide:**

Pricing and the  
REALTOR® Code of  
Ethics

**I-Note:**

SUMMARIZE the Code  
of Ethics standards  
and commentary on  
responsibilities for  
REALTORS® in preparing  
pricing opinions,  
listing, advertising,  
representation,  
concluding transactions

## PRICING AND THE REALTOR® CODE OF ETHICS

The REALTOR® Code of Ethics states responsibilities in listing properties, advertising, representing a seller or buyer, and concluding transactions.<sup>3</sup> It also describes responsibilities when preparing an opinion of property value or price. Lack of any of the aspects of competence, as noted below, must be disclosed so that the buyer or seller can make an informed decision about asking the REALTOR® to proceed with the opinion.

### The REALTOR® Code of Ethics, Article 11 states that the REALTOR® must:

#### ✎ "...BE KNOWLEDGEABLE ABOUT THE TYPE OF PROPERTY BEING VALUED."

Many real estate professionals have experience in pricing residential property, but not complex commercial or special-purpose property. For example, a real estate professional whose business is entirely focused on high-rise condominium units will be at a distinct disadvantage in attempting to form a price opinion on a single-family home. Ask yourself, "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."

In order to form an opinion about property price, the real estate professional must be able to consult relevant resources, such as the MLS and public records. Ask yourself, "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 real estate professional must know about the marketplace in which the property is located. Each geographic market has its own quirks and nuances, and real estate professionals can easily find themselves out of their area of competence. Ask yourself, "Do I have geographic competency in this area?"

<sup>3</sup> 2022 Code of Ethics & Standards of Practice Article 11, National Association of REALTORS®, <https://www.nar.realtor/about-nar/governing-documents/code-of-ethics/2022-code-of-ethics-standards-of-practice>. See Resources section for more info.



An appraiser who is a REALTOR® must abide by both USPAP and the NAR Code of Ethics. For more information about USPAP rules and guidelines, go to [www.uspap.org](http://www.uspap.org).

### **GAINING CMA COMPETENCY**

Competency is gained through experience and affiliation with other experienced and knowledgeable real estate professionals. No one comes into the business competent. We all find ourselves wading into in “new waters” and doing things in real estate we have not done before. However, you must recognize when the level of competence required is beyond your abilities, and act accordingly. These requirements are incumbent on all REALTORS®—brokers, appraisers, agents, and transaction facilitators.

Article 11 of the REALTOR® Code of Ethics states that REALTORS® can “engage the assistance of one who is competent” when they endeavor to provide services outside their own field of competence. When others are involved, the REALTOR® must identify them and describe their specific contribution to the client.

Consider, for example, a real estate professional who is asked to price and list a commercial property, but who has always focused on residential properties. The sellers know the real estate professional personally and want him to represent them. The real estate professional should seek the assistance of a commercial practitioner—and expect to pay for that assistance, either in a split commission or a referral fee—and inform the seller of the other practitioner’s involvement.

## EXERCISE: WHAT WOULD YOU DO?

Joan is a residential real estate professional in a large metropolitan city. She concentrates on the north side of this city because that's where she lives and has an office. She prospects in several residential subdivisions on the north side of town. In the following scenarios, is Joan competent to do a price opinion on her own? If not, what assistance could she enlist? What would you do?

### SCENARIO #1

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

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### SCENARIO #2

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

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### SCENARIO #3

Joan has a close friend who owns a weekend lake front cabin located a three-hour drive upstate. The friend wants to know a price at which to sell it. Joan has been to the cabin once for a holiday weekend. At a state convention, Joan talked to a real estate professional who specializes in recreational property in that part of the state. He said, "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."

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### CMAS FOR OTHER PURPOSES

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 divorcing. One party wants to buy the other one out, so they need a price for the house.
- The property is in an estate, and the heirs want a price.
- A homeowner is questioning the assessed value for property taxes. In his location, assessed value is supposed to be the market value of the property, so he wants a price.

The Code of Ethics specifies the information that must be included 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 same competency requirements apply for these purposes as for listing or making an offer.

### COMPETENCY STANDARDS FOR APPRAISERS

Appraisers must meet competency requirements, as outlined by the Uniform Standards of Professional Appraisal Practice (USPAP) published by the Appraisal Foundation. The Appraisal Foundation is authorized by the U.S. Congress as the source of appraisal standards and qualifications including continuing education requirements. Before accepting or entering into an agreement to perform an appraisal assignment, the appraiser must identify the problem to be addressed and have the knowledge and experience needed to complete the assignment competently. If lacking the required knowledge and experience to competently perform an appraisal assignment, the appraiser must:

- Disclose this fact to the client before accepting the appraisal assignment.
- Take appropriate steps to complete the assignment competently, and...
- Describe in the appraisal report the lack of knowledge or experience and the steps taken to complete the assignment competently.<sup>4</sup>

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<sup>4</sup> USPAP 2020-2021 Edition, The Appraisal Foundation. [www.uspap.org](http://www.uspap.org).

## EXERCISE: COMPETENCY SELF-ASSESSMENT CHECKLIST

**Look at this list of types of real estate and for each type do one of the following three actions:**

- Draw a **circle** around it if, "I'm competent to do this on my own."
- Place a **checkmark** next to it if, "I would need expert help."
- Draw a **line** through it if, "This is outside my competence, or not applicable in my market."

1. RESIDENTIAL REAL ESTATE	2. COMMERCIAL REAL ESTATE
<ul style="list-style-type: none"> <li>■ New construction</li> <li>■ Resale homes</li> <li>■ Condominiums</li> <li>■ Co-ops</li> <li>■ Townhouses</li> <li>■ Houseboat</li> <li>■ Duplexes</li> <li>■ Luxury high-value homes</li> <li>■ Historic homes</li> <li>■ Vacation homes</li> <li>■ Multi generational</li> <li>■ REO</li> </ul>	<ul style="list-style-type: none"> <li>■ Offices</li> <li>■ Strip malls</li> <li>■ Shopping centers</li> <li>■ Stores</li> <li>■ Restaurants</li> <li>■ Mixed use buildings</li> <li>■ Medical buildings</li> <li>■ Educational buildings</li> <li>■ Hotels</li> <li>■ Multi family</li> </ul>
3. INDUSTRIAL	4. LAND
<ul style="list-style-type: none"> <li>■ Manufacturing buildings and property</li> <li>■ Warehouses</li> <li>■ Logistics facilities</li> </ul>	<ul style="list-style-type: none"> <li>■ Vacant land</li> <li>■ Agricultural</li> <li>■ Ranch</li> <li>■ Undeveloped</li> <li>■ Early development</li> <li>■ Subdivision</li> <li>■ Reuse, brownfields</li> <li>■ Mineral rights</li> <li>■ Air rights</li> </ul>

## MODULE

# 2



### Getting Started—Selecting Comparables

Choosing the best comparable properties is the heart of the CMA process. Finding comparables can be as easy as looking next door in an urban neighborhood or as challenging as trying to match a one-of-a-kind, isolated country home. Mismatched comparables complicate the process and can result in pricing miscalculations, lost credibility with sellers and buyers, and even lost transactions.

Pricing a property doesn't rely on guesswork or intuition. As we'll see in this module, pricing a property—preparing a CMA—follows an orderly system for matching properties, collecting market data, and formulating a rational, fact-based price opinion.

### CHOOSING COMPARABLES

Choosing the best comparables is a process of gathering data about similar market-area properties and sifting the facts through a series of filters with increasingly finer "sorts." Characteristics such as location, school district, size, date of last sale, style, age, improvements, and amenities serve as the filters that help you sort through many possible comparables to identify the best choices. Of course, a comparable seldom matches the subject perfectly. The greater the similarity, however, between the subject and comparables, the less the need for adjustments to price the subject accurately.

## FANNIE MAE GUIDELINES

According to Fannie Mae, a property is comparable if the market considers it a competitive substitute.<sup>5</sup> Although the FNMA Selling Guide addresses appraisers, real estate professionals can apply the guidance on choosing comparables. Many lenders and underwriters follow the FNMA guidelines, so using them in CMA preparation increases the likelihood that your pricing recommendation will mesh with the eventual formal appraisal.

- 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 the best and most appropriate comparable sales are not the most recent or if there are not 3 truly comparable sales in the area, older sales comps may be used. Generally, it is preferable to use an older comp with a time adjustment rather than a more recent sale that would require multiple significant adjustments or a comp in a different neighborhood.
- If true comparables cannot be found for the subject, it might be necessary to use very different properties as comparables.

## RELEVANT CHARACTERISTICS

Relevant characteristics are physical, functional, or economic features which impact value. Relevant characteristics are why, when you have a property with a lot of land, the most important thing is the land. Price per square foot of a house on a 100 acre parcel is much less relevant.

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<sup>5</sup> "Selection of Comparable Sales", Selling Guide, FNMA, [www.fanniemae.com/content/guide/selling/b4/1.3/08.html](http://www.fanniemae.com/content/guide/selling/b4/1.3/08.html).



### FIRST STEP—IDENTIFY SUBJECT CHARACTERISTICS

Selecting comparables starts with detailing the characteristics of the subject property as these provide the benchmarks for identifying and sorting through potential comparables. What do you need to know about the subject property?

- **LOCATION:**  
Neighborhood, market area, school districts
- **SIZE:**  
Number of bedrooms and bathrooms, living space, lot size, garage size or parking availability
- **STYLE:**  
Ranch, split level, two-story, town home, condo, bungalow
- **AGE:**  
Year of construction
- **AMENITIES:**  
Pool, security system, fenced yard, deck, patio
- **IMPROVEMENTS:**  
Room additions, roof repair or replacement, updated appliances, updated kitchen or bath, replaced or updated floor and wall coverings
- **CONDITION:**  
Well-maintained, repairs needed, delayed maintenance
- **NEGATIVES:**  
Busy street, near industrial district, nearby sources of pollution (noise, light, odors, emissions), stigmas

**With the characteristics of the subject property defined, the next step is the search for and selection of comparable properties.**

## LOCATION GUIDELINES

To state that comparable properties should be as geographically close as possible to the subject seems obvious. But how close is close enough? Depending on the surroundings of the subject, “close” could range from the same condo building to a radius of five miles or more.

Other location features, such as particular school districts, public transportation stations, proximity to an industrial area or busy strip mall can qualify or disqualify a comparable property.

**FIGURE 2.1** Location Guidelines per Geographic Area

CITY/URBAN	SUBURBAN/SMALL TOWN	RURAL <sup>6</sup>
TARGET RADIUS: ½ MILE	TARGET RADIUS: 1 MILE	TARGET RADIUS: 5 MILES
<ul style="list-style-type: none"> <li>➤ Condominium: same building and floor plan</li> <li>➤ Single-family home: One-half mile radius, same neighborhood</li> <li>➤ Same school boundaries</li> <li>➤ Public transportation routes, bus stop, subway stop</li> </ul>	<ul style="list-style-type: none"> <li>➤ Same subdivision</li> <li>➤ Same neighborhood</li> <li>➤ Same complex for multifamily homes</li> <li>➤ Same school district</li> <li>➤ Commuter rail station, bus stop</li> </ul>	<ul style="list-style-type: none"> <li>➤ Same school district</li> <li>➤ Same township</li> </ul>

**When comparable properties can’t be found within the target radius, expanding the search area or the time frame for sales may be the solution.**

<sup>6</sup> Rural does not necessarily mean a farm home. The U.S. Census Bureau defines two types of urban areas: Urbanized Areas (UAs) of 50,000 or more people and Urban Clusters (UCs) of at least 2,500 but less than 50,000 people. Any area outside of these urban areas is considered rural.

### NEIGHBORHOOD, MARKET AREA, OR MICRO MARKET?

When searching for comparable properties, do neighborhood and market area mean the same thing? Although the terms are often used interchangeably, appraisers distinguish between the two concepts—the neighborhood in which the subject property is situated and the market area in which comparable, competitive properties are found. Sometimes, the neighborhood and market area have the same boundaries, but in other cases the market area may contain several neighborhoods or portions of different neighborhoods. Market area is formally defined as “the geographic or location delineation of the market for a specific category of real estate, i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users. In contrast, a neighborhood is defined more generally as ‘a group of complementary land uses.’” <sup>7</sup>

Some housing markets are so specific and confined that they constitute a micro market. Examples might include island enclaves that have micro markets based on tide and wind exposures—leeward or windward, small resort communities, or urban historic districts. In a narrowly defined micro market, expanding the area in which to look for comparables won’t work. No matter how long ago the last transaction, comparable properties from the same micro market, adjusted for time, are the best option.

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<sup>7</sup> “Identifying Comparable Properties” permissioned for use in 2014 by The Appraisal Foundation.

## DATE OF SALE GUIDELINES

A comparable should reflect a recent date of sale. As a rule of thumb, the date of sale of a comparable should fall within 90 days of CMA research. Markets can change rapidly, and an interval of more than 90 days might mean you are no longer comparing “apples to apples.”

**FIGURE 2.2**

Date of Sale Guidelines per Market Conditions

CHANGING MARKET	STABLE MARKET
<ul style="list-style-type: none"><li>➤ More than a 3% increase or decrease in the last six months</li><li>➤ Comparables: 90 days old or less</li></ul>	<ul style="list-style-type: none"><li>➤ No more than a 3% change in price in the last six months</li><li>➤ Comparables: 6 months old or less</li></ul>

## 90-DAY GUIDELINE

The 90-day guideline may be extended 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 comparables that are sufficiently similar in terms of function, size, amenities, or location cannot be found, it may be necessary to extend the date-of-sale interval to include more comparable candidates. At the outside, real estate professionals usually try to choose comparables sold within the last 6 months of the date of CMA preparation.

## MORE THAN 6-MONTHS GUIDELINES

An adjustment for time will probably be needed if a comparable is more than 6 months old. Depending on the market, the price of homes 9 months or a year ago may be very different from the price today. This adjustment can be made by looking at the median sales price of properties at the time the comparable sold and the median price today. The percentage difference will be the adjustment.

**It is generally preferable to choose older comps that are within the target radius of the subject property rather than comps that are in a different neighborhood or area, since it is easier to quantify an adjustment for time rather than trying to determine how much to adjust for a difference in location.**

### SIZE GUIDELINES

Comparables should be the same size, or close to the same size, as the subject, in terms of both living area and lot size. The easiest search parameter is the number of bedrooms and bathrooms. But it can get complicated if data on room count and size isn't standardized.

MLSs tend to use standardized measures for living area square footage, referred as the gross living area (GLA). If, however, comparable properties are drawn from disparate sources, an adjustment may be necessary to standardize the room count and size.

### LIVING AREA

The gross living area (GLA) should include only those areas above grade, finished, and usable year-round. They must have utilities (electric, heat, cooling, as appropriate) as well as floors and ceilings that are similar to or blend with the rest of the house. GLA usually includes:

- Kitchen
- Family room
- Bedroom
- Living room
- Bathrooms
- Den
- Office
- Dining room
- Sunroom (if climate controlled)

### GARAGE SIZE

Although not part of the living area, where to park a car is a size consideration. Does the subject property include a one- or two-car garage? If the property is a condominium unit, what are the parking arrangements? Is a parking space deeded?

### LOT SIZE

Similarity of lot size in urban and suburban neighborhoods makes comparison of lot size easy and requires no adjustment. Rural and unique properties, however, may have a range of lot sizes which complicates comparison.

## MORE SELECTION CRITERIA

### AGE

In a subdivision or condominium building, properties will likely be the same age—year of construction. In an area that includes both new and older homes, adjustments for age of the comparable properties may be necessary.

### AMENITIES

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. Comparables should reflect the amenities or features of the subject as closely as possible. Finding a comparable that exactly matches the subject in terms of amenities is unlikely. The goal, therefore, is finding comparables that are as similar as possible.

Changing demands and tastes affect the value of some amenities from market to market. When considering the importance of an amenity in pricing a property, think about whether it is “hot or not.”

### IMPROVEMENTS

Improvements can range from required maintenance to style updates and additions. If the subject has a brand-new kitchen and the only other comparables have 20-year-old kitchens, an adjustment to the comparables will be needed.

An improvement might be an over-improvement, depending on the local market 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.

### DISCUSSION QUESTIONS: WHAT'S HOT, WHAT'S NOT?

**What are some amenities and improvements that tend to add value in your market?**

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**What are some amenities and improvements that were popular in the past but are less valued now?**

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## OTHER ISSUES

### NOT AN ARMS-LENGTH TRANSACTION

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 of an estate. In these cases, not only are the parties related, but they already have an ownership interest in the property.

### DISTRESSED SALES

Distressed sales are categorized as non-arm's-length transactions. The term distressed sale refers to foreclosures and short sales, selling at discounts of 15–20 percent below 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.

### 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.

- **P**hysically possible
- **L**egally permissible
- **E**conomically feasible
- **M**aximally productive



The highest and best use of the subject might not be its current use. Sometimes the highest and best use of a residential property is removal of the structure and redevelopment of 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 replacing the single-family home with an apartment or condominium building on the land, 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 include commercial. Correct zoning information can make a big difference 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 and beyond the real estate professional's competence. The advice of an expert, such as a local appraiser, should be sought.

## COMPARABLES—HOW MANY?

How many comparables should you identify for CMA research? The answer ranges from at least three to as many as may be appropriate to the subject.

In some markets, the number of appropriate comparables can be quite high and therefore daunting to analyze. For other markets it can be difficult to find enough (or any) comparables, such as a unique home like a geodesic dome or pyramid. But there are more commonplace instances as well, such as 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.

## UNSOLD LISTINGS

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, describing the competition in a CMA report demonstrates what the seller is up against. Both recently sold and recently listed comparables help the seller recognize and respect the homes contending for the same buyers.

# SOURCES FOR COMPARABLES

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

## MLS

The MLS is often the first and best source of information on comparable properties. Although the chief purpose of MLS services is publication of property information and facilitation of the offer of cooperation and compensation between brokers, most computerized MLSs allow members to number-crunch multiple possibilities—that is, to perform statistical analyses of properties and their features. This helps in pricing property and determining trends in the market.

A real estate professional 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, public records may offer a solution.

## 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 assessors' tax data, property records (e.g., deeds, mortgages, liens, leases), and land surveyor charts.

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

Access to public records varies between states. 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.

### COMPANY FILES

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

### AUTOMATED VALUATION MODELS (AVMS)

Automated valuation models (AVMs) are online databases that try to match up similar properties to give an idea of the range of historically recorded sales prices. 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 property, number of rooms and bedrooms, age of the property, and area surrounding the property.

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 consult these sites, so agents should be prepared to explain to clients how these AVMs work, the margin of error for their data and estimates, and the pros and cons of using them.

#### **PROS**

- Quick access to computerized, online databases.
- Low per-use fee or blanket fee for unlimited use (much cheaper than a BPO or appraisal)
- Support for valuation of collateral decisions related to portfolios (properties in bulk) spanning many geographic areas.

### CONS

- No filter for factors like non-arms-length transactions, property condition, duress, and sales concessions.
- Garbage in, garbage out (GIGO)
- Inconsistent confidence scoring

## REALTORS PROPERTY RESOURCE®

RPR® is a national repository of information on millions of properties in the United States. All REALTORS® have access to RPR® at no additional cost – it's an exclusive REALTOR® member benefit.

RPR® collects and processes data from a range of authoritative sources including MLSs, CIEs (Commercial Information Exchanges), commercial partners, public records, U.S. Census Bureau, U.S. Bureau of Labor Statistics, Federal Emergency Management Agency (FEMA), Esri, and more. RPR® provides a detailed view of each property, including public record and assessment information, details of prior transactions and sales history (where available\*), zoning, mortgage and lien data, neighborhood demographics, schools, and more.

**FIGURE 2.3** Snapshot of RPR property summary



This makes it a powerful tool to quickly access the data, analytics, and reports that real estate agents need to search for comparables and generate CMAs. All RPR® reports can be customized, branded, printed, downloaded, and emailed to buyers and sellers.

### HOW DOES RPR® HELP AGENTS SEARCH FOR COMPARABLES?

The following RPR® tools can be used to identify comparables: property search, property summary and facts, school information and search, recent sales and comparative listings, neighborhood facts, etc. Trends, unique maps, and reliable reports are also available.

### CAN RPR® CREATE A CMA?

Yes. RPR includes a built-in tool for generating a Comparative Analysis or a Sales Comparison Analysis. The CMA tool has simple adjustment options and can be included in a Seller's Report, Property Report, and Mini Property Report. A Sales Comparison Analysis is more in depth, and you can make precise value adjustments and weight your comps from within the system. It yields a comprehensive Valuation Workbook.

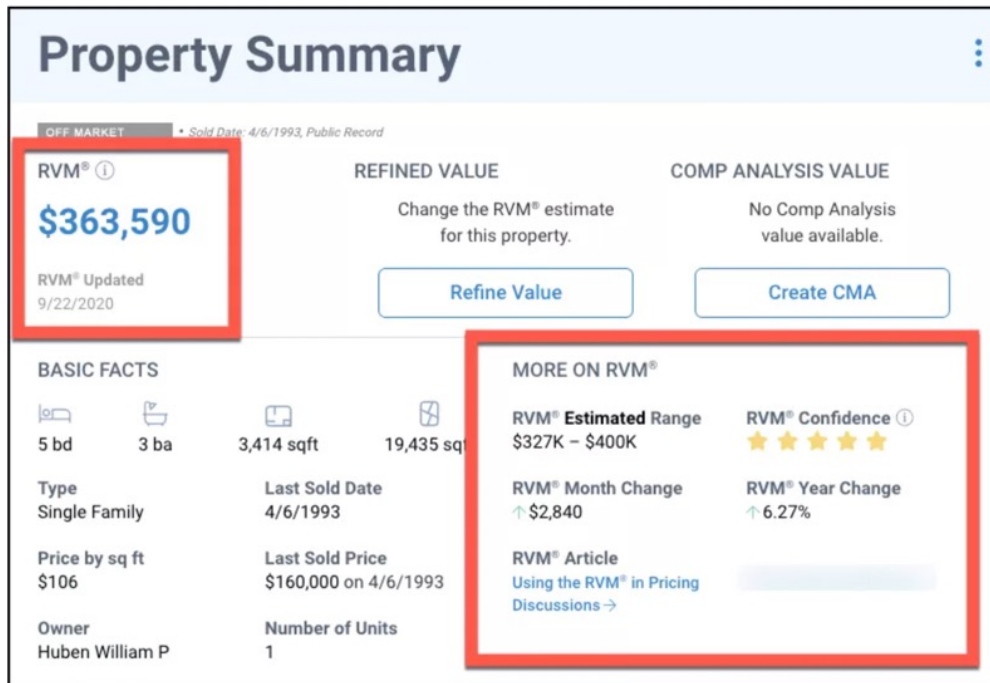
### DOES RPR® INCLUDE AN ESTIMATED PROPERTY VALUE?

Yes. The Realtors Valuation Model® (RVM®) in RPR® uses proprietary algorithms to analyze on-market and off-market MLS listing data plus publicly recorded sold data to estimate property value for single-family homes, condos, and smaller multi-family dwellings. If property data is incomplete or not disclosed by the MLS, then an AVM is displayed within RPR®.

RVM® values are updated twice monthly and are typically more accurate than AVMs, since AVM estimated values draw solely from publicly recorded data. Each estimated value in RPR® is given a confidence score out of five stars based on if multiple AVMs yield a similar or wide range of values for the property and if enough recent nearby sales have occurred.

Visit RPR® at [narrpr.com](https://narrpr.com).

**FIGURE 2.4** Property Summary showing RVM®



### PLEASE NOTE:

Most MLSs have elected to share their data with REALTORS® and it can be searched and displayed through RPR®, but not all MLSs do. Some MLSs share on-market listings with all REALTORS®, some only with their own subscribers.

To access all the data that your local MLS shares with its subscribers, you must be logged into RPR® and you must have completed your profile with your MLS/CIE Agent ID numbers.

Find out if your MLS shares data by visiting [blog.narrpr.com/rpr-partners](http://blog.narrpr.com/rpr-partners).

## COMPARABLE ROADBLOCKS

Selecting comparables can pose challenges for a variety of reasons. The common thread among these reasons is that information about comparable properties is flawed or missing.

### ✚ INCORRECT OR MISLEADING INFORMATION IN DATABASES

For example, some aggregation sites are not always up to date, showing properties as listed for sale that have already closed. Pertinent details about a transaction may be missing, such as whether the seller contributed to the financing.

### ✚ NO PHOTOS

In response to buyers' concerns about privacy, listing agents may remove photos of sold properties. But photos are an important tool in selecting comparables and lack of access to them creates a disadvantage when preparing CMAs. Contacting the listing agent to ask for 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.

### ✚ CHANGING MARKETS

Volatile markets—rapid value increase or decline—complicate identification and evaluation of comparables. In such a market, the 90-day guideline might result in candidates that are no longer truly comparable with the subject.

### ✚ 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 include a speedboat in the property sale, which skews the price. If used as a comparable, the sales price should be adjusted downward for the price of the boat. But a real estate professional who sees only the sale price in the MLS might fail to do so.

### ✚ NOT EVERY SALE IS A MARKET-DRIVEN TRANSACTION

The fact that a transaction is not arm's-length generally is not obvious from marketing sources such as the MLS. Finding this information may require a deep dive into public records. If the seller is the mortgage-holding financial institution, the property might be a foreclosure with a discounted sales price.



## COMPARABLE PROPERTY EVALUATION CHECKLIST

### LOCATION

Property Location: \_\_\_\_\_

Distance from Subject: \_\_\_\_\_

School District: \_\_\_\_\_

Style: \_\_\_\_\_

### SIZE

Bedrooms: \_\_\_\_\_ Bathrooms: \_\_\_\_\_

Living Area Square Footage: \_\_\_\_\_

Lot size: \_\_\_\_\_

Garage: \_\_\_\_\_ Size: \_\_\_\_\_ Attached: \_\_\_\_\_

Parking (condos): \_\_\_\_\_ Off street \_\_\_\_\_ Deeded: \_\_\_\_\_

### CONDITION

Year Built: \_\_\_\_\_

Condition: \_\_\_\_\_

Amenities: \_\_\_\_\_

Improvements: \_\_\_\_\_

### DATE, PRICE, TRANSACTION

Date of Last Sale: \_\_\_\_\_ Sales Price: \_\_\_\_\_

Unsold: \_\_\_\_\_ List Price: \_\_\_\_\_

Distressed Sale: \_\_\_\_\_ Non-Arms-Length: \_\_\_\_\_

### ADJUSTMENTS?

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USE THIS COMPARABLE PROPERTY? ☐ Yes ☐ No



## EXERCISE: SELECTING COMPARABLES

The following pages contain details of a subject property and possible comparables. Work with your team to evaluate the possible comparables and choose those you would use for a CMA.

### SUBJECT PROPERTY



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

### SUBJECT INFORMATION:

- Main bedroom with private bath
- Family room with fireplace
- 2-Story foyer
- All major components are original, but in good condition
- All appliances remain
- Formal dining room
- Custom built-in bookshelves

### 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:** \$460,000  
**Financing:** Conv.

### DETAILS:

This sidewalk community home is move in ready! Tons of updating done to this home including newer windows, furnace (2 years old), kitchen (this year), bathroom (2 years ago), freshly painted inside and out ('16), tuck pointing (4 years ago), shed (added last year). 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:** \$440,000

**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 an open 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:** \$440,000  
**Financing:** FHA

### DETAILS:

Large family room w/atrium door to deck; custom gourmet kitchen w/ granite, ss applcs, custom lighting and garden window; huge main br w/vaulted ceiling; 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:** \$470,000  
**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. Main 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:** \$430,000

**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 roof 35 yr gtd shingle! Generously spacious main 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:** \$440,000

**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. Sunroom 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:** \$430,000

**Financing:** Conv.

### DETAILS:

This 2-story with oversize lot (100 x 132) nestled among tall pine 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 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 x 16 deck. Other notables, New Driveway (5 years old) Well tank and pump (4 years old) most carpet installed (3 years old).

### 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:** \$425,000

**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 outdoor 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:** \$450,000  
**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 main suite with dual 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 (3 years ago). Hot water & sump pump (5 years old).

### 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:** \$470,000

**Financing:** Conv.

### DETAILS:

All new stainless appliances (3 years old) freshly painted (3 years old) all new insulated siding, gutters & downspouts (5 years ago) 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:** \$520,000  
**Financing:** Conv. 15,000

### 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. Main BA with whirlpool tub and separate shower. 1st Floor FR. Fireplace. 3 Season Rm with Skylights.

**Which comps would you choose? Why?**

[illegible]

## COMPARING COMPS—SQUARE FOOTAGE PRICING

One of the ways to determine if the schools, styles, age, and other characteristics, are deciding factors in pricing in your area is to compare comparables based on square footage price.

COMP #	SALES PRICE	SQ. FT	PRICE/ SQ. FT.	SCHOOL	STYLE	BUILT
1	\$340,000	1800	\$256	Wash.	2-S	1949
2	\$440,000	2200	\$200	Adams	2-S	1976
3	\$440,000	2000	\$220	Wash	2-S	1985
4	\$470,000	1800	\$261	Wash	Ranch	1978
5	\$430,000	2450	\$176	Adams	2-S	1972
6	\$440,000	2300	\$191	Wash	Split	1973
7	\$430,000	1700	\$253	Wash	2-S	1950
8	\$425,000	1500	\$283	Wash	2-S	1946
9	\$450,000	2300	\$196	Adams	2-S	1977
10	\$470,000	2150	\$219	Wash	2-S	1985
11	\$520,000	2450	\$212	Wash	2-S	1982

- Price/square foot of Washington school district homes? \_\_\_\_\_
- Price/square foot of Adams district homes? \_\_\_\_\_
- Price/square foot of ranch in Washington school district? \_\_\_\_\_
- Price/square foot of split level in Washington school district? \_\_\_\_\_
- Price/square foot of 2-S in Washington school district? \_\_\_\_\_
- Price/square foot of 2-S in Adams school district? \_\_\_\_\_
- Overall, which school district has the lowest and highest square footage pricing? \_\_\_\_\_



## MODULE

# 3



## Combining Facts and Numbers

After appropriate comparable properties have been identified, the next step is equalizing the price differences between comparables to help determine a price for the subject property.

### METHODS FOR ADJUSTING COMPARABLES

There are two principal methods for adjusting comparables: cost-based and market-based. The cost-based method is best for some property features and the market-based method for others. Either method can be used for some property features.

Keep in mind that adjustments are made to comparables, not the subject. The sales prices of the comparables are the known factor, the sale price for the subject property is the unknown that the CMA process reveals.

### COST-BASED ADJUSTMENTS

The cost-based method estimates the value of a property feature based on the actual cost to construct or add it. Although seldom used for preparing a CMA, at times the cost-based method is best, such as when a buyer would logically make a price adjustment the same way.

For example, suppose former owners of a house in foreclosure removed the furnace. Because buyers want a furnace, they will make an adjustment to the price of the house for it. In fact, a savvy real estate professional will obtain estimates for a new furnace and be ready with an answer to the inevitable question, “What will it cost to install a furnace?”

Many experienced real estate professionals include contractors in their network who they can call for estimates on construction and repair costs. If you have not yet developed such resources, the following tools might be helpful:

- **NAR REMODELING IMPACT REPORT**  
[www.nar.realtor/research-and-statistics/research-reports/remodeling-impact](http://www.nar.realtor/research-and-statistics/research-reports/remodeling-impact)
- **REMODELING MAGAZINE COST VS. VALUE REPORT**  
[www.costvsvalue.com](http://www.costvsvalue.com)
- **PILLAR TO POST COST GUIDE**  
[pillartopost.com/cost-guide](http://pillartopost.com/cost-guide)

## MARKET-BASED ADJUSTMENTS

The market-based method estimates the value of a property feature based on market knowledge or a paired-sales analysis. The differences between the comparable and the subject are identified, 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, real estate professionals can develop good estimates of value for specific house features. They learn from experience, for example, the value of four bedrooms versus three bedrooms, or 2½ baths versus 1½ baths, in a particular market. They can then use these amounts to adjust for differences between comparables and the subject. Periodic brainstorming with local appraisers can also help real estate professionals 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 an adequate guide to value. For a real estate professional who is new to a market and has not yet developed a good experiential understanding of feature values in it, the paired sales approach is a solution.

Paired sales analysis assumes that two or more properties are identical in every respect except one; the difference in price is then attributed to this feature. The paired-sales analysis compares the value of a property feature among several comparables to estimate the effect on price. It answers the question: starting from the sales price of this comparable property, what price would it sell at if it was identical to the subject property?

The disadvantage of paired sales analysis is that seemingly identical houses almost always differ in many ways. Paired sales analysis fills in the knowledge gap when the real estate professional lacks experience in the market.

### PAIRED SALES ANALYSIS

Let's look at an example of a paired-sales analysis. Consider four comparables that differ only in the size of the garage. What would be the price of the comparables with 2-car garages if they had 3-car garages?

	Comparable A	Comparable B	Comparable C	Comparable D
<b>GARAGE</b>	2-car	2-car	3-car	3-car
<b>SALES PRICE</b>	\$355,000	\$355,500	\$360,000	\$361,000

**Compare the sales prices of the 2-car garage comparables with the 3-car comparables.**

**1. COMPARE A WITH C**

The price difference is \$5,000 (\$360,000–\$355,000)

**2. COMPARE A WITH D**

The price difference is \$6,000 (\$361,000–\$355,000)

**3. COMPARE B WITH C**

The price difference is \$4,500 (\$360,000–\$355,500)

**4. COMPARE B WITH D**

The price difference is \$5,500 (\$361,000–\$355,500)

The comparison produces four possible adjustment amounts (\$5,000, \$6,000, \$4,500, \$5,500) for the difference between a three-car garage and a two-car garage in a comparative analysis. Which one do we use?

### ➤ **USE A MIDDLE NUMBER**

Choosing one of the middle numbers—\$5,000 or \$5,500—is a good approach.

### ➤ **AVERAGE THE VALUES**

Alternatively, we could use an average of the four values as the adjustment amount. In this example, the average works out to \$5,250. Such precise numbers are seldom used in a CMA but averaging the four values reinforces that either \$5,000 or \$5,500 would be a good choice.

## 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, Florida home buyers expect central air conditioning. The market will penalize a property that lacks it. In this example, the amount of the penalty would probably be the cost to remedy the deficiency—the installation cost for central air conditioning. This cost approach would be the best method for this adjustment.

Other differences for market expectations require the market-based approach. For example, a buyer might pay \$4,000 less for a house with only one bathroom, instead of two bathrooms. The \$4,000 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 can be determined through market experience or a paired-sales analysis.

Price range tends to shape market expectations. For example, at the lowest price range, a buyer might not expect a garage and might not be willing to pay significantly more for a garage. At the other end of the price spectrum—the upper price ranges—buyers may expect multi-car garages. For example, in some markets, once the \$500,000 threshold is crossed, buyers expect a 3- or 4-car garage, not just a 2-car garage.

Bottom line: when using the market-based method to figure adjustments, make sure the data are derived from a pool of comparables similar to the subject. Make sure the comparison is “apples to apples.”

### MAKING THE ADJUSTMENTS

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).

Based on the garage example on page 50, assume 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 comparables’ 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.

### ADD OR SUBTRACT? TWO RULES OF THUMB

Here’s a good rule of thumb based on the example.

- **SBA (SUBJECT BETTER ADD):**  
If the subject property has a 3-car garage and the comp has a 2-car garage, add to the price of the comparable.
- **CBS (COMPARABLE BETTER SUBTRACT):**  
If the subject property has a 2-car garage and the comp has a 3-car garage, subtract from the price of the comparable.

**Remember, adjustments are made to the comparables, not the subject.**

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 by the same amount.

### CONCESSIONS

An adjustment to a comparable should be made when the concession impacts the final sales price. For example, an interest rate buydown, closing cost help, or payment of HOA fees should be deducted from the value of the comparable. If the sales price of a comparable property was \$100,000 and included \$3,000 in closing costs paid to the buyer, the \$3,000 would be deducted from the sales price.

#### FANNIE MAE GUIDANCE FOR APPRAISERS ON ADJUSTING COMPARABLES

Although Fannie Mae guidance is aimed at appraisers and appraisals, real estate professionals would do well to apply it in adjusting comparables for CMAs.

Fannie Mae's guidance emphasizes that adjustments must be market-based, not arbitrary or boilerplate values. It also acknowledges 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.

Appraisers must adjust comparables to reflect any sales or financing concessions that might affect sales price. This is why real estate professionals usually need to provide a copy of the sales agreement to appraisers—so they can check for such concessions. Adjustments may not be dollar-for-dollar.

The guidance also emphasizes 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.

## PRINCIPLES OF MARKET EXPECTATION AND SUBSTITUTION

Some values are easy to identify. For example, it is easy to identify the value of a lakefront lot versus one that is not by comparing sales prices and using paired sales analysis to derive the difference in value. When paired sales analysis is not possible, however, real estate professionals must rely on their market expertise to determine what a typical buyer would be willing to pay for a property feature in the current market.

The principle of market expectation is applied for 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 for which most buyers will pay more—or less—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 to either buy it elsewhere, build it new, or install the component. The principle of substitution, along with market expectation, drives the market-based pricing model.

In simple terms, substitution means that the real estate market is competitive: A buyer will generally choose the least expensive house that satisfies needs and wants, all other things being equal. For this reason, real estate professionals should strive to be as accurate as possible in the adjustment of the comps. For example, if on-the-market homes with three-car garages sell for \$5,000 more, the buyer won't pay \$7,000 more for one because the seller wants more or "it would cost more to build."

Consumers instinctively employ the principle of substitution with other big-ticket items too. For example, a car buyer who has decided on a specific make and model won't usually pay more at one dealership than the cost of purchasing it at another dealership.

## DATE OF SALE AND TIME ADJUSTMENTS

The date of sale and the time adjustment (market conditions) are critical elements in determining an accurate value because an appraisal is based on a specific date in time (effective date of appraisal). The comparable sales being considered must be analyzed by the appraiser to determine if there have been any changes in market conditions from the time the comparable went under contract to the effective date of the appraisal. This analysis will determine whether a time adjustment is warranted. Adjustments may be either positive or negative depending on the market changes over the time period analyzed. This adjustment can be calculated by comparing the median sales price of properties at the time the comparable sold and the median sales price today. Use the percentage difference as the adjustment. Time adjustments should be supported by other comparables (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment in the appraisal report.

## 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. Following are some specific home features and how to characterize them when selecting and adjusting comparables.

### BEDROOMS

Many municipalities have specific requirements for what rooms can legally count as bedrooms. It's essential that you know your local codes and market expectations. The International Residential Code requires that bedrooms must be at least 70 square feet and have a heat source capable of maintaining the space at 68 degrees. In general, bedrooms should also have natural light, ventilation, and a window big enough to provide an emergency exit to outdoors. Because of the requirement for a window exit, a basement room with a small window can't be called a bedroom.

Closets are not required 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 usually consists of a sink and toilet. Some markets use the three-quarter-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. Above-grade areas should be compared only with above-grade areas and below-grade areas only 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. Calculating per-square-footage price is tricky. Technically, the land value should be subtracted from the total price to determine the actual cost per square foot. Because land value is seldom separated from house value, dividing the sales price by the square footage yields an inexact but a usable figure. This simplification is generally valid in a homogenous neighborhood with similar types of houses and similar lot sizes. It is not appropriate for very large lots or acreage.

#### ANSI® GUIDELINES FOR MEASURING SQUARE FOOTAGE

In April of 2022, Fannie Mae® began requiring appraisers to use ANSI® Z765-2021 (American National Standards Institute®) standards for measuring, calculating, and reporting above-grade and below-grade square footage for single-family homes.

Tax assessors, appraisers, and real estate agents are not required to conform to any law or regulation for measuring and reporting square footage. Measurement methods may differ significantly from the ANSI standard, resulting in variations in reported square footage that could impact the appraised value of the property.

Notable aspects of the ANSI measuring standards:

1. This requirement applies only to single-family housing. It doesn't apply to apartments, condos, or commercial property.
2. The measurement standard is from the exterior walls and includes the area on each floor above grade based on exterior measurements including stairwells but excluding open areas.
3. The standard requires a minimum ceiling height of 7 feet. In second-story areas with sloped roofs living area starts at 5 feet on the slope, and 50% or more of the ceiling must be 7 feet or above. No portion of the finished area that has a ceiling height of less than 5' can be included in the GLA.
4. Any living space that is partially or completely below grade (even if it's only a foot or two) is considered basement space.

5. Measurements are taken and reported on a computer-generated sketch or floor plan to the nearest inch or tenth of a foot, and the final square footage calculations are reported to the nearest whole square foot.
6. Staircases are included in the square footage of the floor from which they descend.
7. The appraiser may not know what method was used to calculate the GLA shown in an MLS listing or in tax assessor data. Through research and their knowledge of the local market, appraisers will determine if the GLA provided for comparables should be adjusted.

For more information, refer to the Fannie Mae Selling Guide and the Fannie Mae® Fact Sheet: Standardized Property Measuring Guidelines.

### AGE

Every attempt should be made to find comps in the same neighborhood as the subject property that do not require an adjustment for age. If either the subject or the comparable is new construction, an appropriate adjustment is needed.

Age adjustments are not consistent across the spectrum of home ages. For example, comparing a 10-year-old home to a brand-new home would usually be a significant adjustment. The adjustment for a 20-year-old home compared to a 30-year-old home might be minimal or nothing at all.

Some think an age adjustment means very little. Others think it means a lot. The question is really whether any adjustment needs to be made at all. Consider the example of a buyer who has a choice between two identical houses with the exception that one is new and the other is 40 years old but rehabilitated, modernized, and improved until it looked just like the new home. Would the buyer pay the same price for the older “like new” home as the 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

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 a daunting challenge.

Compared with other homes in the neighborhood, a house on a smaller-sized lot will generally sell at a discount. 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. Extra land for a garden, storage buildings, more privacy, and so on generally costs much less per acre than the home site. Two other important considerations in rural areas are:

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

### ADJUSTMENT PITFALLS

Certain errors and situations are not uncommon challenges for real estate professionals as they select and adjust comparables.

### 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 a 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 few 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 there are enough ordinary comparables to conduct an accurate market analysis, it is best to omit outliers. When calculating average sales price among multiple comparables, an outlier is usually omitted from the calculation because it will skew the result. If an outlier must be included, it should be adjusted accordingly.

### STIGMATIZED PROPERTIES

A stigmatized property is a home in which occurrence of 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 homicides, suicides, criminal activity, and alleged hauntings.

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

## EXERCISE: ADJUSTING COMPARABLES, FIGURING A PRICE RANGE

Look back at the comparables you selected in the previous module. Use these comparables and the sample Evaluation Figures to complete the CMA Analysis Worksheets that follow. Based on the analysis worksheets, what is the price range for the subject property?

Comparable #: \_\_\_\_\_

	SUBJECT	COMPARABLE	SBA (ADD)	CBS (SUBTRACT)
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				
FIREPLACE	Yes			

	SUBJECT	COMPARABLE	SBA (ADD)	CBS (SUBTRACT)
YEAR BUILT	1985			
SCHOOL DISTRICT	Washington			
OTHER				
ADJUSTED VALUE				

Comparable #: \_\_\_\_\_

	SUBJECT	COMPARABLE	SBA (ADD)	CBS (SUBTRACT)
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			

## Pricing Strategy Advisor: Mastering the CMA

	SUBJECT	COMPARABLE	SBA (ADD)	CBS (SUBTRACT)
OTHER				
FIREPLACE	Yes			
YEAR BUILT	1985			
SCHOOL DISTRICT	Washington			
OTHER				
ADJUSTED VALUE				

Comparable #: \_\_\_\_\_

	SUBJECT	COMPARABLE	SBA (ADD)	CBS (SUBTRACT)
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			



	SUBJECT	COMPARABLE	SBA (ADD)	CBS (SUBTRACT)
KITCHEN	Stainless appliances, granite			
OTHER				
FIREPLACE	Yes			
YEAR BUILT	1985			
SCHOOL DISTRICT	Washington			
OTHER				
ADJUSTED VALUE				

Comparable #: \_\_\_\_\_

	SUBJECT	COMPARABLE	SBA (ADD)	CBS (SUBTRACT)
DATE OF SALE	--			
PRICE	--			
SELLER CONCESSIONS	--			
LOAN TYPE	--			
PROXIMITY	--			
STYLE	2 sty			
BR	4			
BATHS	2 full, 2 half			
GARAGE	2			
GLA	2400			

	SUBJECT	COMPARABLE	SBA (ADD)	CBS (SUBTRACT)
<b>BASEMENT</b>	Full, finished 1200 sf			
<b>KITCHEN</b>	Stainless appliances, granite			
<b>OTHER</b>				
<b>FIREPLACE</b>	Yes			
<b>YEAR BUILT</b>	1985			
<b>SCHOOL DISTRICT</b>	Washington			
<b>OTHER</b>				
<b>ADJUSTED VALUE</b>				

### EVALUATION FIGURES

The following figures are for illustration purposes only and 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 VERSUS NONE**  
**\$3,000–\$8,000**

➤ **FUNCTIONAL WINDOW UNIT**  
**\$250**

➤ **WHOLE HOUSE CEILING FAN**  
**\$2,000–\$5,000**

## AGE OF HOME

- **NO ADJUSTMENT MAY BE NEEDED FOR LESS THAN 5 YEARS**  
**25%–.5%/year**

## BASEMENT

- **PARTIAL VERSUS NONE**  
**\$10,000–\$15,000**
- **FULL VERSUS NONE**  
**\$15,000–\$20,000**
- **WALK OUT–ADD TO ABOVE**  
**\$5,000–\$10,000**

## BASEMENT (FINISHED)

- **BELOW-AVERAGE FINISHING**  
**\$3,000–\$5,000**
- **AVERAGE FINISHING**  
**\$5,000–\$10,000**
- **SUPERIOR FINISHING**  
**\$10,000–\$20,000**

## BATHROOMS

### FULL

- **2 VERSUS 1**  
**\$4,000–\$6,000**
- **3 VERSUS 2**  
**\$3,000–\$4,000**
- **4 VERSUS 3**  
**\$2,000–\$3,000**

### HALF

- **FIRST HALF BATH**  
**\$2,000–\$3,000**
- **ADDITIONAL**  
**\$1,500–\$2,500**

## BEDROOMS (ONLY IF FUNCTIONAL AND NOT IN BASEMENT)

↘ 3 VERSUS 2  
\$6,000–\$8,000

↘ 4 VERSUS 3  
\$4,000–\$6,000

↘ 5 VERSUS 4  
\$3,000–\$5,000

## BUSY STREET

↘ BACKING TO A BUSY STREET  
\$2,000–\$5,000 (could be more depending on market and location)

↘ 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

## BRICK

- **ALL BRICK–NOT FACE BRICK**  
**\$4,000–\$10,000**

## FIREPLACE

- **\$4,000–\$6,000**

## FENCE

- **\$2,000–\$4,000**

## GARAGE (PER STALL)

- **\$7,000–\$15,000**

## 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 ft 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 MARKET AND LOCATION

- **IN-GROUND–POSSIBLY**  
**\$6,000–\$10,000**
- **ABOVE-GROUND–NO VALUE; MAY HAVE NEGATIVE VALUE**  
**VALUE VARIES**—Could have no value, negative value, or some value, depending on market conditions

### PORCH

- **SCREENED VS 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

- **30-40% of the cost per square foot**  
(The square footage adjustment cannot be the full cost per square foot that we saw in the earlier exercise, since much of that price includes land value. Typically, 35% of that number is used to calculate the square footage adjustment.)

## MODULE

# 4



## Preparing the CMA

In the preceding modules, we looked at how to do the data selection, adjustments, and analysis that underpin a CMA. This module focuses on organizing the facts and figures and presenting them in a logical progression that imbues the data with meaning.

Assembling the data into a package that provides the “show and tell” produces a presentation aid for the real estate professional who can use it to lead the seller or buyer through a decision-making process of numbers and facts to conclusions and recommendations.

## ASSEMBLING THE CMA REPORT

There is no set format or preferred length for CMAs. The length, complexity, and design can vary according to preferences and business practices. The report can vary from a two-page summary to dozens of pages of analysis and photographs.

How much data is enough? How much is too much? Whatever you choose to include, everything should serve the purpose of leading the seller or buyer to a decision—a list price or an offer. As you choose content, take time to consider what piece of the pricing puzzle the information provides as well as how the seller or buyer will likely respond to the data. Will they skim through the content and focus on the bottom-line pricing or will they carefully read through the content?

An Internet search will reveal numerous applications for creating a CMA. Your company may have its own proprietary tools and some MLSs offer this as a service. REALTORS® can take advantage of RPR® tools including RPR® Mobile. Whatever format and level of detail you choose, keep in mind that the goal is to find a format that works for you as well as the sellers and buyers.

## WHAT THE CMA REPORT CONTAINS

Most comprehensive CMA reports include the following content categories.

### ➤ COVER LETTER

- An introductory memo explaining the purpose of the CMA—to inform the seller or buyer and help them make pricing decisions.

### ➤ SUBJECT PROPERTY

- A description of the subject property and neighborhood

### ➤ COMPARABLES

- A list and descriptions of the comparables used in developing a price for the subject
- Commentary clarifying the procedures and logic applied in choosing and adjusting comparables
- 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.)

### ➤ MARKET

- A description of current market conditions in general and for the specific subject property
- Typical days on market
- Absorption rate



### ➤ COMPETITION

- A table listing similar properties currently on the market

### ➤ PRICING RECOMMENDATION

- A recommended price range for the subject, based on analysis of the comparables

### ➤ DISCLAIMERS

### ➤ MARKETING MATERIAL

- Personal and company marketing
- Contact information

### SHOWING ADJUSTMENT AMOUNTS?

Some real estate professionals prefer to focus on what was adjusted and omit the amount of adjustments. This avoids potential arguments from the seller that an adjustment is “not enough.” Choose the approach that feels most comfortable and be prepared to defend actual adjustment numbers if shown.

## DISCLAIMERS

The CMA may 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 must be specific to the situation. It needs to fit the context of what is being disclaimed. A disclaimer is not a guarantee against litigation and offers no protection against wrongful practices or poor judgment. Some states have their own required disclosures for CMAs. Please check your state's requirements.

## PREPARING TO LEAD THE DISCUSSION

Of course, you will not simply present the CMA report to sellers and buyers without comment or leave them to interpret the results on their own. The CMA opens the dialogue and leads to the mutual goal: an appropriate price for the subject and, in a reasonable timeframe, a completed transaction.

As you organize the CMA content, it may help to think of it as telling the story the subject property against the backdrop of market conditions and competing properties. And like any good story, it has a beginning, middle, and ending. For a structuring a CMA, the story model begins with the subject property, moves through the middle content of comparables, competition and market conditions, and concludes with a pricing recommendation.

## UNDERSTANDING THE MARKET

Information on market conditions is an important component of a CMA because sellers and buyers need to know the market environment that they are operating in. An effective CMA communicates a realistic picture of the market and shapes expectations.

- Are property values stable, appreciating, or declining?
- Is there a shortage of homes on the market, balanced supply and demand, or an oversupply?
- How long does it take to sell a home—under 90 days, 90–180 days, more than 180 days?

Although there are no guarantees, a fact-based evaluation of market conditions helps sellers plan a pricing strategy and prepare for the closing and move out. Buyers can better plan an offer price and negotiation strategy.

## SUPPLY AND DEMAND—ABSORPTION RATE

Calculation of the absorption rate provides a data-based method for characterizing market conditions. The absorption rate estimates the rate at which properties are sold or leased within a market area.

Calculating the absorption rate starts with the number of competitive properties currently on the market. That number is divided that number by the number of properties sold per month.

**Here is the formula:**

$$\frac{\text{Number of Competitive Properties on the Market}}{\text{Number of Competitive Properties Sold per Month}} = \text{ABSORPTION RATE}$$

- **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.**

$$\frac{44 \text{ Homes on the market}}{4 \text{ Homes Sold per Month}} = 11 \text{ MONTH ABSORPTION RATE}$$

- **IF THERE ARE 80 HOMES FOR SALE, THE ABSORPTION RATE WILL BE 20 MONTHS, OR ALMOST 2 YEARS, FOR ALL THE HOMES TO SELL.**

$$\frac{80 \text{ Homes on the Market}}{4 \text{ Homes Sold per Month}} = 20 \text{ MONTH ABSORPTION RATE}$$

It's important to note that the calculation does not consider the number of homes that will eventually come on the market.

How far back should you look in calculating absorption rate? Start by looking back three months to determine the average absorption rate and then compare this figure with just the previous month's absorption rate to see the trend.

## BUYER'S OR SELLER'S MARKET?

Based on absorption rate calculations, what is the rule of thumb for characterizing the market?

- **SELLER'S MARKET CONDITIONS:**  
Less than 4 months absorption rate
- **BALANCED MARKET CONDITIONS:**  
4–6 months absorption rate
- **BUYER'S MARKET CONDITIONS**  
More than 6 months absorption rate

## EXERCISE: USING ABSORPTION RATE TO ADVISE CLIENTS

Rita has tracked sales of single-family, two-story Colonial homes in her market area for the past two 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 1/3 to 1/2 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?

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Knowing this, how should Rita advise sellers of similar homes in each of the following scenarios? Is it a seller's, balanced, or buyer's market?

**A. THERE ARE CURRENTLY 12 HOMES LIKE THIS ON THE MARKET.**

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---

---

**B. THERE ARE CURRENTLY 22 HOMES LIKE THIS ON THE MARKET.**

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---

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**C. THERE ARE CURRENTLY 62 HOMES LIKE THIS ON THE MARKET.**

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## RETAINING CMAS FOR FUTURE REFERENCE

Whenever real estate professionals 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 real estate professionals also need to recognize and understand longer-term trends. 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 redevelopment.

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

## LISTENING TO THE MARKET

Do you budget time for keeping up to date on market trends? An essential factor in building and sharpening CMA skills is keeping current on local market trends and developments. There is no magic formula to staying up to date—it takes attention, time, and effort.

Real estate professionals should develop—and maintain—the tools, resources, and contacts 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 intuition for clients is equally important.

## STAYING CURRENT ON MARKET CHANGES

Most MLSs have market analysis tools for keeping current 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 compared with previous months trends

## DEVELOPING AN EXPERT NETWORK

A single person cannot hope to master all the complexities of residential real estate. Wise real estate professionals develop a network of personal contacts and relationships to help them stay current with the market and fill in their knowledge gaps about pricing.

- More experienced real estate professionals can help you refine your pricing skills and test your assumptions and approaches in developing CMAs.
- Real estate professionals 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. Consider inviting an appraiser to attend one of your office meetings to discuss the appraisal value of amenities in the current market. Asking buyers to share a copy of their appraisal can help build up a reference file of the values appraisers assign to property amenities such as decks, fences, and other property features.

### NAR STATISTICAL REPORTS

National Association of REALTORS® Research offers a wealth of statistical information on home prices and sales. Access these reports and more at [www.nar.realtor/research-and-statistics](http://www.nar.realtor/research-and-statistics).

#### ➤ EXISTING-HOME SALES

Each report includes data for 12 months and annual totals going back three years. Reports are available for existing single-family homes, condos, and co-ops. Both median and average prices are included.

#### ➤ PENDING HOME SALES INDEX

The index measures housing contract activity. It is based on signed real estate contracts for existing single-family homes, condos, and co-ops.

#### ➤ METROPOLITAN MEDIAN HOME PRICES AND AFFORDABILITY

Two separate price reports reflect sales prices of (1) existing single-family homes and (2) condominium and cooperative homes by metropolitan statistical area.

#### ➤ HOME BUYERS AND SELLERS BY METROPOLITAN STATISTICAL AREA

Home buyer and seller profiles for individual metropolitan statistical areas, covering demographics and home characteristics.

#### ➤ COUNTY MEDIAN HOME PRICES AND MONTHLY MORTGAGE PAYMENTS

Median home values for 3,119 counties and county-equivalents.

#### ➤ STATE HOUSING STATISTICS

Interactive Map: Existing-Home Sales Data by State.

#### ➤ REALTORS® CONFIDENCE INDEX

A key indicator of housing market strength based on a monthly survey sent to over 50,000 real estate practitioners. Practitioners are asked about their expectations for home sales, prices and market conditions.

#### ➤ LOCAL MARKET REPORTS (MEMBER LOGIN REQUIRED)

Local information on markets, fiscal conditions, mortgage conditions, the economic impact of real estate, and existing home sales and prices.

#### ➤ STATE-BY-STATE ECONOMIC IMPACT OF REAL ESTATE ACTIVITY

Annual reports outline the total economic impact of real estate related industries on the state economy, as well as the expenditures that result from a single home sale, including aspects like home construction costs, real estate brokerage, mortgage lending, and title insurance.



## INDUSTRY NEWS RESOURCES

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:

➤ **JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY**

[jchs.harvard.edu](https://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/research](https://www.freddiemac.com/research)

- For economic and housing research.

➤ **BANKRATE**

[www.bankrate.com](https://www.bankrate.com)

- For national average mortgage rate daily and average mortgage rates and points in top 10 markets.

➤ **S&P CORELOGIC CASE-SHILLER HOME PRICE INDICES**

<https://www.spglobal.com/spdji/en/index-family/indicators/sp-corelogic-case-shiller/sp-corelogic-case-shiller-composite/#overview>

- Measures U.S. residential real estate prices. The indices track changes in the value of residential real estate nationally and in 20 metropolitan markets.



## MODULE

# 5



### Presenting the CMA

What's the first question sellers or buyers ask? What's the price? How do sellers and buyers react when they hear it? Are they pleasantly surprised or disappointed, skeptical or accepting? Observing reactions to the price range provides a good indication of how to present the rest of the CMA.

When discussing the CMA results, real estate professionals must be prepared to explain and sometimes defend their answers. Of course, every transaction presents its own set of circumstances, but sellers and buyers tend to show similar reactions and make common mistakes and misassumptions.

A confident presentation of the CMA educates sellers and buyers, helps them understand market forces, and guides them on the path from price range to listing or offer price and to a successful transaction.

### **GUIDING SELLERS AND BUYERS THROUGH THE CMA**

Because sellers and buyers are eager to see the price range that results from all the analysis, they tend to jump to the bottom line of the CMA. After satisfying their initial curiosity about price, however, the wise real estate professional guides sellers and buyers through all the information in the CMA to show and explain the rationale supporting the price range recommendation. Asking sellers and

buyers for their reactions, interpretations, and impressions—“What do you think?” or “Is this in line with your expectations?”—will reveal their depth of understanding, concerns, and possible issues.

### THE LOCAL MARKET—SUPPLY AND DEMAND

An overview of the local market and neighborhood offers a good starting point for the CMA presentation. Sellers and buyers readily understand the concept of supply and demand expressed as a seller’s or buyer’s market. They may not, however, realize the impact on pricing.

➤ **SELLER’S MARKET:**

High demand for homes and few homes on the market pushes prices upward.

➤ **BUYER’S MARKET:**

Low demand and many homes of the market lets prices fall or flatten.

Ask an open-ended question to assess understanding at this point, such as, “Based on the market conditions, how quickly do you think 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 their own compares—so this can be an engaging part of the CMA presentation. Sellers usually focus on differences between their home and the comparables, so be prepared to explain how you adjusted for these.

This is also a good time to discuss the competition. For sellers, discuss current listings that compete directly with their home and the listing prices. For buyers, discuss how competing properties could affect their offer and negotiation strategy.

## FROM PRICE RANGE TO LISTING OR OFFER PRICE

The CMA presentation concludes with a recommended price range for the subject—but a listing or offer price must be a single number. Discussion of several market averages can help move from a range to a price.

The seller or buyer will probably ask what price you would recommend, so you need to be prepared with an answer. But a better approach is to first ask them what they think.

### ➤ ASK A SELLER

"After looking at the market information and competition, what list price from the range do you think is right for your home?"

### ➤ ASK A BUYER

"After considering the market information and similar homes, what offer price from the range seems reasonable to you?"

### ➤ ASK A SELLER OR BUYER

"The market indicates a value for this home between \$x and \$x. Currently, homes in our marketplace are selling for X% of list price. Based on these numbers, what listing/offer price seems reasonable to you?"

In addition to agreeing on price, the pricing discussion provides a good opportunity for reaching a shared understanding about price adjustments and negotiation strategy.

### ➤ ASK A SELLER

"If offers don't materialize at the original listing price, what price reduction would you consider?"

### ➤ ASK A BUYER

"If there are competing offers, what is the highest price you are prepared to pay?"

The 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.

Tactfully ask them to explain their thinking. The answer could reveal one of the common client misconceptions about value, which you can then address by referring to supporting facts in the CMA.

## EDUCATING SELLERS AND BUYERS

Real estate professionals face the challenge of staying up to date and reading the market signals. Instilling an understanding of market forces in the minds of sellers and buyers may present an even greater challenge. Sellers and buyers may have a general idea about current market conditions but lack the perspective or experience to appreciate the forces that impact pricing. Do the following errors sound familiar?

### SEVEN DEADLY SELLER SINS

1. Pricing higher than the competition.
2. Refusing reasonable offers early on.
3. Not putting the property in the best possible condition for sale.
4. Making showing the property difficult.
5. Forgetting that their emotional attachment does not add value in the eyes of the buyers.
6. Blaming the agent for the market.
7. Resisting a timely price reduction, causing market aging.

### WHEN HOMES SELL QUICKLY: “I SHOULD HAVE ASKED FOR MORE!”

The flipside of a listing that languishes for months is one that sells quickly at or near its listed price. Sellers might feel remorseful in this situation. They might think they could have gotten a higher price and focus their remorse at you. Real estate professional who do their homework on pricing can explain that a quick sale indicates that the home was priced right for the market, which resulted in a timely sale.

### FIVE BUYER BLOOPERS

1. Believing AVMs have the correct value.
2. Listening to people who bought houses years ago—the market has changed.
3. Believing people who insist that every house is overpriced by X%.
4. Disregarding the explanation of seller's market conditions.
5. Not getting a mortgage preapproval before looking at properties, then finding they can't afford what they want and expecting the seller to lower the price.

### WHAT CONSUMERS CAN AND CANNOT CONTROL

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

For example, sellers can control the appeal of their home by 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 is in the seller's control too. 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 and cooperative.

Neither sellers or buyers can control the economic climate that affects financial decisions and capabilities. 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. Along with the economic climate, sellers and buyers have no control over the supply of available homes and the corresponding effect on pricing.

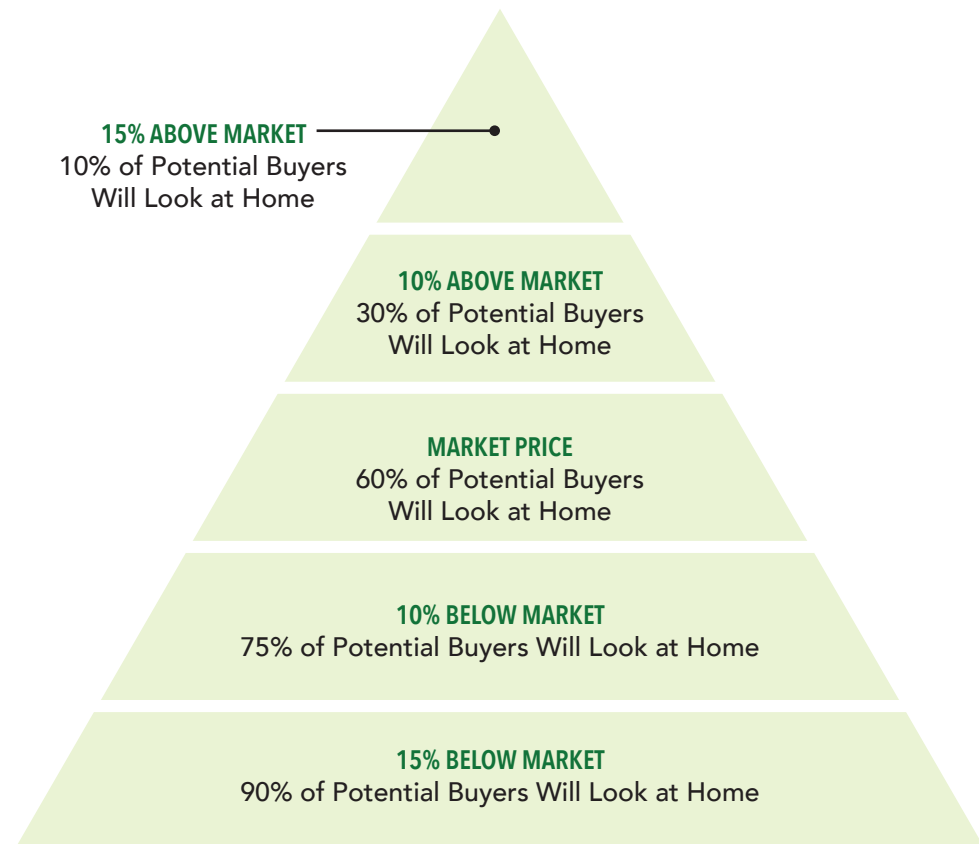
## PUT THE SELLER IN THE DRIVER'S SEAT

A good way to educate sellers—and keep them informed of market developments—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 first-hand is often more compelling than hearing it filtered through you. In addition, this strategy keeps the lines of communication open if it becomes necessary to revisit price.

## THE PRICING PYRAMID

The pricing pyramid presents a compelling picture—worth a thousand words—of the dangers of overpricing. A quick Google search turns up multiple versions of this familiar infographic, but a typical representation looks like this:

**FIGURE 5.1** Sample Pricing Pyramid





The pricing pyramid illustrates that as list price increases above market value, a smaller percentage of potential buyers will look at the home. This pyramid can help sellers quickly understand the advantages of staying within the range indicated by the CMA when settling on an asking price.

### WHEN THEY WON'T LISTEN!

What you've learned in this course should help you educate sellers about the drawbacks of pricing higher than the competition and the fallacy of blaming the real estate professional for the market. A well-documented CMA demonstrates the nature of the competition and explains, with concrete data, the dangers of pricing above it. For buyers, the CMA reduces the risk of making an offer too far below the market price. For both sellers and buyers, the CMA shows that the market dictates pricing—not the notions of real estate professionals or the dreams of buyers and sellers.

Sometimes, despite all your efforts, sellers or buyers disregard your pricing recommendations. When sellers are determined to price their property—or buyers are determined to make an offer—well outside the range suggested by the CMA, a protective measure is to obtain a written, signed statement from them acknowledging that they have independently decided to do so despite your advice.

### REVISITING PRICE

When a listing languishes in spite of timely and reasonable adjustments to the listing price, real estate professionals must be prepared to revisit their original pricing analysis, including the following tactics:

- If competition was used in the original CMA, revisit the sources to see if any of them have sold and, if so, at what prices.
- Review current market data, including the ratio of listing price compared to sales price and days on the market.
- Prepare an updated CMA using current comparables.
- Ask colleagues who have shown the property what feedback they have received.
- Confer with the seller about having an appraisal done.

## LEGAL AND ETHICAL REQUIREMENTS

Real estate professionals must observe legal and ethical requirements when pricing properties. In addition to the competency standard discussed in Module 1, real estate professionals must maintain confidentiality and comply with record retention requirements.

### CONFIDENTIALITY

CMAs are subject to confidentiality requirements as specified by state regulations. In addition, the REALTOR® Code of Ethics 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)*

### RECORD RETENTION

CMAs fall under the same record retention guidelines as any other real estate–related documents. You must follow all state license law requirements in retaining CMAs. If state license laws do not provide guidelines, it is recommended that CMA records be retained for a minimum of one year.

In addition to the CMA, all data used in its preparation should be kept on file. For example, if some comparables were considered but not used in the CMA, keeping a copy of them with a note detailing why they were not used might prevent potential liability if a seller or buyer later questions a price opinion.

### EXERCISE: WHAT WOULD YOU SAY?

#### ➤ SELLER SAYS:

*"We can always come down in price, but we can't go up! Let's start at a higher number."*

#### ■ RESPONSE:

Homes priced above what the market indicates are apt to take longer to sell. That increases the stress, opportunity costs, and real costs. The longer a home languishes on the market, the less buyer attention it receives. Buyers tend to skip over it.

#### ➤ SELLER SAYS:

*"I've heard the market is hot right now, so I want to price my home aggressively."*

#### BUYER SAYS:

*"I've heard this is a buyer's market, so I want to get a bargain."*

#### ■ RESPONSE:

The absorption rate indicates the current market is a buyer's, seller's, or neutral.

➤ **SELLER SAYS:**

*"We completed a \$XX remodel of the kitchen last year, and that cost should be added to the suggested price range."*

■ **RESPONSE:**

There is usually a significant difference between cost to the seller and value to the prospective buyer. The CMA comparables include the upgrade (or have been adjusted for it), so this value is already reflected in the suggested price range.

➤ **SELLER OR BUYER SAYS:**

*"Zillow® says the house is worth more (less) than what your price range shows."*

■ **RESPONSE:**

(Prepare for this question by checking Zillow® in advance!) 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 SAYS:**

*"My neighbor's very similar home sold for more than your price range."*

■ **RESPONSE: (IF THE NEIGHBOR'S HOME IS A TRUE COMPARABLE.)**

The neighbor's house is included the CMA and I can show the adjustments that likely contributed to its higher selling price.

■ **RESPONSE: (IF NEIGHBOR'S HOME DOESN'T QUALIFY AS A COMPARABLE.)**

Let me explain why the neighbor's house isn't included in the CMA. The home sold too long ago and doesn't reflect the most current market conditions. Or, public information isn't available on the house—only known, verifiable information can be used in forming value opinions.

## Discussion: Your Challenges in Pricing Discussions

**What strategies or tactics discussed in this or the previous modules will help most in addressing those challenges?**

This image shows a full page of blank, lined paper. It features approximately 20 evenly spaced horizontal grey lines across its entire width, typical of notebook or school paper. The lines are thin and light grey, set against a plain white background. There are no margins, text, or other markings on the page.



## MODULE

# 6



### Working with Appraisers

The CMA has done its job and the seller and buyer have agreed on a sales price and terms. So, the transaction is a done deal, right? If the buyer plans to apply for a mortgage, the next make-or-break step in the transaction is the appraisal. Everyone involved in the transaction—including the appraiser—hopes that the appraisal syncs with the agreed sales price. The best way to make that happen, or resolve issues when it doesn't, is for real estate professionals to understand the role and responsibilities of appraisers and educate sellers and buyers about this important step in the transaction process.

### THE APPRAISER'S ROLE AND RESPONSIBILITIES

In brief, an appraiser provides an opinion of value. The appraisal process usually follows these steps.

- 1. Based on the specific assignment, determine the appropriate scope of work, including:**
  - The type of property inspection required—interior, exterior only, or none)
  - The appropriate value determination—sales comparison approach, cost approach, or income approach
  - Any lender-specific requirements

2. Inspect the property, if needed.
3. Research various resources for information about the subject and market area, including county and municipal records, MLS records, and other data services.
4. Review recent sales and listings of comparable properties, in much the same way that agents do when they prepare CMAs.
5. Use one of three or combination of approaches, to develop an opinion of the property value.
6. Prepare an appraisal report that contains comprehensive information to facilitate understanding and use, including supporting documentation for the appraiser's value opinion.

## APPRAISAL 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 for properties that have 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.



### WHO DOES THE APPRAISER WORK 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. Lenders order from an appraisal management company (AMC) to manage the appraisal process.

The homebuyer receives a copy of the appraisal. The Equal Credit Opportunity Act requires a creditor to provide a free copy of a completed home appraisal and all other written valuations on the property regardless of whether credit is extended, denied, incomplete, or withdrawn.

### COMMUNICATING WITH THE APPRAISER

Some real estate professionals believe, erroneously, that they are not permitted to communicate with the appraiser at any time. Nothing in the regulations governing the appraisal process, however, bars communication between real estate professionals and appraisers. Real estate professionals may provide information about the property and the pending sale to help the appraiser accomplish the assignment. But they must not compromise the appraiser's independence, such as trying to influence the value opinion.

Once the appraisal is complete any communication with the appraiser must be through the lender. Even at this stage, real estate professionals are permitted to provide additional information—through the lender—that the appraiser may have overlooked as well as point out errors in the appraisal report.

## STEPS IN WORKING WITH THE APPRAISER

Despite the tension inherent in the appraisal process, real estate professionals and appraisers are not opponents. Each plays a critical role in the transaction and is bound by legal and professional obligations. An understanding of the appraiser's role and responsibility combined with some preparatory work can foster a constructive working relationship and an efficient appraisal process.

### LISTING AGENT MEETS THE APPRAISER

For a residential sale, the appraiser typically needs to inspect the property and will contact the seller or real estate professionals to make access arrangements. Meet the appraiser at the property and be prepared to answer any questions about it or the neighborhood. Allow the appraiser the necessary space and time to complete the inspection.

### ENSURE PROPERTY IS READY FOR INSPECTION

It's the seller's responsibility to make sure that the appraiser can access and inspect all areas of the home. That means that:

1. Electricity must be on for the appraiser to verify operation of the HVAC system, appliances, and the electrical system.
2. Plumbing must be operational so the appraiser can look for leaks, flush toilets, and check water pressure.
3. Attic access must be provided to check for insulation, attic ventilation, and any damage.\*
4. Access must be provided to the crawlspace (when present) to check for standing water, possible damage, and ventilation.\*
5. Windows must be able to be opened. In addition, if security bars are present, they must have a quick release mechanism or they must be removed.

\*Please note that appraisers will not remove items to access attics or crawl spaces; the area must be clear.

### PREPARE AN APPRAISER'S PACKAGE

Prepare an Appraiser's Package in advance and have it available for the appraiser at the property. An Appraiser's Package typically includes the following items.

- Copy of the sales contract
- Plats
- Surveys
- Deeds
- Covenants
- HOA documents
- Floor plans
- Specifications
- Neighborhood details such as clearly defined boundaries and school boundaries
- Trends and changes for the area—use MLS stats
- Recent similar quality comparables with explanation of why certain comparables were used and rejected plus verification that information such as square footage is correct
- Detailed lists and dates of upgrades, remodels, and costs
- Energy-efficient features
- Pricing history and multiple offers on the property at time of sale

### APPRAISAL TOOLS AND RESOURCES

Agents can find a wealth of resources, legal information, field guides, and toolkits about the appraisal process at [www.nar.realtor/appraisal-valuation/valuation-tools](http://www.nar.realtor/appraisal-valuation/valuation-tools).

**Check out these quality sources for information:**

- [birminghamappraisalblog.com](http://birminghamappraisalblog.com)
- [sacramentoappraisalblog.com](http://sacramentoappraisalblog.com)
- Working RE Magazine  
[workingre.com](http://workingre.com)

### VERY IMPORTANT—RETURN APPRAISER CALLS ASAP

After visiting the property, the appraiser might have follow-up questions. Be sure to respond to such requests promptly. It is in everyone's best interest for the appraiser to have complete and accurate information sooner rather than later. In a rapidly changing market, an appraiser may ask for information on pending sales or sales that have closed but for some reason have not yet been closed out in the MLS. If an appraiser asks about pending sales, please be certain to obtain the client's permission before sharing that information.

### HOW TO READ AN APPRAISAL REPORT

Although there is no universal appraisal form, many appraisers and AMCs use forms developed by Fannie Mae or Freddie Mac—as is or with minor variations. Regardless of the format or style, appraisal reports consistently include certain information.

### INTERPRETING AN APPRAISAL REPORT

#### AN APPRAISAL REPORT SHOULD CONTAIN THESE ESSENTIAL ELEMENTS.

- 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 property which is how appraisers typically refer to the concept of market expectations—what a typical buyer would expect to find on 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 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. Such an appraisal should include tables of comparable properties and their relevant characteristics, with adjustments made as needed. Some of the same comparable properties used in developing your CMA of the property may appear in the appraisal report.

### RECONCILIATION

Appraisers refer to the analysis of different value indicators or approaches as a reconciliation. In completing the reconciliation, the appraiser relies on judgment and experience to evaluate value indicators according to their relevance and reliability to determine a value.

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 like 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

Everybody involved in the transaction—real estate professionals, buyers, sellers, and lenders—are understandably unhappy when appraisals come in lower than the offer price on the home. A lender is unlikely to offer a mortgage above the appraised value amount. A low appraisal isn't necessarily a deal killer but in most cases the buyer and seller must reopen negotiations.

### WHAT CAUSES A HOME TO APPRAISE BELOW SALES PRICE?

- In a seller's market, bidding wars can push prices too high
- In a buyer's market, sellers may overprice their homes
- Buyer cash-back closing cost credits included in the sale can push the sales price too high
- Too many distressed properties—foreclosures and short sales—can put downward pressure on home prices
- The appraiser may lack familiarity with dynamics of the market area or use comparables that aren't a good match

### WHEN A HOME APPRAISES BELOW THE BUYER'S OFFER PRICE, SEVERAL POSSIBLE RESPONSES ARE SET IN MOTION. WHAT ARE THE BUYER'S OPTIONS?

- Make up the difference in cash
- Try to renegotiate the sales price with the seller
- Ask the seller to provide financing
- Cancel the deal

If all else fails, walking away from the deal may be the buyer's best option. If the sales contract included an appraisal contingency, the buyer can recover the earnest money deposit.

### DISTRESSED PROPERTIES AS COMPARABLES

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 short sales or foreclosures are an anomaly, they shouldn’t be used as comparables. If investors dominate the market and an excess of short sales and foreclosures skew the market, the appraiser cannot ignore this relevant market data. These comparables must be considered in forming a value opinion.

### THE TIDEWATER INITIATIVE FOR VA APPRAISALS

When it appears that an VA appraisal will come in lower than the contracted sale price, the appraiser may invoke the “Tidewater Initiative.” This is a VA code word for a procedure that opens a two-day window during which additional comparable information that may impact the valuation of the property may be communicated through the point of contact (POC)—usually the lender—to the appraiser. The comparables must be closed sales. Pending sales contracts used to support a time adjustment must include the original contract and all addendums. The appraiser may review additional information but cannot discuss contents of appraisal. After the appraiser uploads the completed appraisal to the VA portal, the POC receives notification of the completed appraisal which the lender’s VA underwriter can review. The VA borrower receives a copy of the appraisal too.

The “Tidewater Initiative” is named for a solution developed by the VA after a cluster of disputed appraisals originated in Norfolk, Virginia, the Tidewater region. The Tidewater Initiative is not a means for making sure the appraisal matches the sales price. Instead, it aims to limit the number of appraisal rebuttals, as well as allow an opportunity, before completion of the appraisal, to provide information that the appraiser might have missed.

## THE LONG LIFE OF FHA APPRAISALS

Real estate agents and sellers must be aware of the long life of FHA appraisals and the potential effects for pricing property. An FHA appraisal stays with a property for up to 180 days.

How does this affect price? Suppose a property appraises for \$2,000 below the offer price, the seller does not reduce the price, and the transaction fails. If another FHA buyer makes an offer on the same property within the next 180 days, the same appraisal will be used again. A real estate professional needs to employ market savvy to guide the seller through this situation. What percentage of transactions in this price range use FHA financing? If the percentage is significant, and depending on the seller's situation, accepting the lower price in the beginning might have been a better decision. Conversely, in a falling market, the argument could be made that the new value should be more than \$2,000 below the old appraised value.

What happens if this situation occurs in a rapidly changing market? The appraisal should be adjusted if the market is increasing or falling. The real estate professional or seller could consider conferring with the lender about appealing the appraisal.

## REQUESTING AN APPRAISAL RECONSIDERATION

Although commonly termed "challenging an appraisal," a better way to look at the situation is resolving a "sales variation." Working to get the appraisal reconsidered should not be viewed as a battle with the appraiser. Starting the process with an attitude that the appraiser is wrong will put the appraiser on the defensive and lower the chances of anything changing.

Most appraisers are ethical and competent, and most appraisals are accurate. Occasionally, however, there may be reason to believe that an appraisal contains substantive flaws and does not accurately estimate the value of a property.

If the appraisal seems inaccurate in any way or omits pertinent information, the procedure for requesting corrections begins with the buyer contacting the mortgage lender in writing. The buyer or the buyer's representative must request the re-evaluation, not the listing agent. Of course, the buyer's representative should obtain permission of the buyer before beginning an appeal of a low appraisal.



The written inquiry should set forth fact-based reasons for adjusting the appraisal and request that the appraiser address specific concerns. If the review process finds that additional information alters the appraisal, the appraiser should issue a revised appraisal with comments addressing the concerns presented in the appeal.

### APPRAISAL RED FLAGS

#### ➤ PROBLEM COMPARABLES

Problem comparables include sales that are older than is preferred, are at a greater distance, are not arm's-length, or illogical, comparables that should have been used but were not, or comps that were used that should not have been. Watch for adjustments that don't make sense or are inconsistent.

#### ➤ INCORRECT DATA

Incorrect address, parcel number, flood plain number, or census tract number should be corrected.

#### ➤ INCORRECT DESCRIPTIONS

The description should match 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 remove or update the data.

#### ➤ FLAWED RECONCILIATION

A reconciliation of market data that doesn't make sense might indicate a flawed appraisal. 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, and comp #3 required 20 percent net and 25 percent gross, yet comp #3 was the comparable the appraiser reconciled to. The appraiser should reconcile to the most similar comparable(s).

## HOW TO ADDRESS A LOW APPRAISAL AND TIPS FOR AGENTS AND APPRAISERS<sup>8</sup>

Ryan Lundquist is a Certified Residential Appraiser and the author of [sacramentoappraisalblog.com](http://sacramentoappraisalblog.com). He offers the following tips and a sample letter to use when appealing a low appraisal. It is adapted and reprinted here with permission.

### TIPS FOR AGENTS:

#### 1. BE REASONABLE:

Be realistic about what a property is worth. Try to help the owner base the list price on actual similar sales and whatever the current market is doing in the neighborhood for similar properties.

#### 2. COMMUNICATE FIRST:

Sometimes real estate agents have a very hands-off approach about communicating with appraisers (until an appraisal comes in too low of course). When that happens, agents will often start communicating all sorts of things about the property and how the market responded to it. But why was this information not shared in the first place? If you aren't using my "Appraiser Info Sheet"<sup>9</sup>, please consider doing so because it helps you be intentional about answering questions appraisers tend to ask (before they ask). Remember, it's easier to be proactive before the appraisal is finished rather than reactive afterward.

#### 3. ASK THE LENDER:

Before launching into a rebuttal, first make sure to ask the lender what their process is for challenging an appraisal so you know you are spending your time wisely. They might have their own form. Remember, a reconsideration of value has to come to the appraiser from the lender.

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<sup>8</sup> Lundquist, Ryan, "How to Challenge a Low Appraisal and Tips for Agents and Appraisers", Sacramento Appraisal Log, March 2016, <http://sacramentoappraisalblog.com/2016/03/28/how-to-challenge-a-low-appraisal-and-tips-for-agents-and-appraisers>.

<sup>9</sup> <https://sacramentoappraisalblog.com/2014/10/09/a-cheat-sheet-for-agents-of-information-to-provide-to-the-appraiser/>

### 4. WEAR YOUR DATA HAT:

It can be emotional when a property appraises too low, so it's important to remain objective and stick to the facts of the market when talking with appraisers. Focus on critiquing the meat of the appraisal, which is comp selection and adjustments given (or not given). Forget about minor issues or clerical errors that don't really sway value.

### 5. PRICE PER SQ FT:

I recommend giving most of your attention to similar sales rather than bringing up price per sq ft. At the end of the day price per sq ft can be a valuable metric, but during an appraisal rebuttal it's important to focus on sales that are similar since that is probably what is going to be most useful for the appraiser.

### 6. BE HUMBLE:

It's easy to blast the appraiser because you think you're right, but the appraiser might have nailed the value. Remember, some appraisals come in low because the appraiser did a bad job, but many times properties come in lower than the contract price because that's really where value is.

### 7. NOVEL:

There is a better chance of being heard if you keep it short. Don't write a novel (and it helps if you're diplomatic and nice). This is why the format above is useful because it helps organize thoughts into a logical manner.

### 8. NO PRESSURE:

Remember to not pressure for a higher value (Dodd-Frank). Stick with the facts and try to help the market speak for itself. That's the value of the sheet above because it helps focus the conversation on comps and adjustments. You are asking the appraiser to reconsider the value, not meet your contract price. In fact, don't even suggest a target value for the appraiser to meet. With some focused communication, you can provide support for a higher value without saying, "it's worth at least X amount."

## ARTICLE AND SAMPLE LETTER <sup>10</sup>

[DATE]

ATTN: XYZ Mortgage Company

Subject Property  
123 Main Street  
Sacramento, CA 95824  
Appraised Value: \$220,000

**[OPENING PARAGRAPH]** After reviewing the appraisal for 123 Main Street by John Blacksmith, we would like to request further clarification and investigation by the appraiser. We would like to ask for a reconsideration of value based on the following points:

- **[COMP CRITIQUE]** Comp 1 was given a \$10,000 adjustment for condition. This property was a cosmetic fixer, whereas the subject property had \$33,450 in recent improvements. A \$10,000 adjustment seems minimal when considering the substantial improvements given to the subject property. When looking at renovated properties (like Comp 3 and pending Comps 4-5), it seems like the market is willing to pay a much larger premium for upgrades.
- **[COMP CRITIQUE]** Comp 2 backs a commercial property and is located across the street from a gas station, but no adjustment was given for the adverse location. It may have been a clerical error on the part of the appraiser to have not given an adjustment. Why was an adjustment not given?
- **[COMP CRITIQUE]** Comp 3 is updated, and the value adjusted well beyond the appraised value. Why was this property not given more weight in the appraisal report? It seems like Comp 1 is inferior in condition and Comp 2 has an inferior location, while Comp 3 is the most similar.

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<sup>10</sup> Article and Sample Letter courtesy of Ryan Lundquist, [www.SacramentoAppraisalBlog.com](http://www.SacramentoAppraisalBlog.com).

- **[COMP CRITIQUE]** Comps 4-5 are pending at \$242,000 and \$248,000. Comp 4 ended up closing 7 days after the appraiser's inspection at \$240,000. We know it cannot be used as a sale in the appraisal report, but on the inspection date it seems like this pending was still a strong indicator of value. Why did the appraiser not give more weight to these listings?
- **[NEW COMPS]** What does the appraiser think of 2462 Bono Street and 8629 Edge Way as comparable properties?

**[CLOSING PARAGRAPH]** We would humbly ask the appraiser to take a second look at the information above as it relates to data and adjustments in the appraisal report. We appreciate your time and consideration, and please let us know if you have any further questions.

Respectfully,

**[BUYER'S NAME]**  
**[PHONE NUMBER]**  
**[EMAIL@EMAIL.COM]**

## WRAP UP

### QUESTIONS AND ANSWERS

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

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### KEY LEARNING POINTS

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

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## Resources

### HELPFUL WEBSITES

- **NATIONAL ASSOCIATION OF REALTORS®  
PSA (PRICING STRATEGY ADVISOR) CERTIFICATION**  
[www.pricingstrategyadvisor.org](http://www.pricingstrategyadvisor.org)
- **NATIONAL ASSOCIATION OF REALTORS®  
2020 CODE OF ETHICS & STANDARDS OF PRACTICE**  
<https://www.nar.realtor/about-nar/governing-documents/code-of-ethics/2022-code-of-ethics-standards-of-practice>
- **NATIONAL ASSOCIATION OF REALTORS® REMODELING IMPACT REPORT**  
[www.nar.realtor/research-and-statistics/research-reports/remodeling-impact](http://www.nar.realtor/research-and-statistics/research-reports/remodeling-impact)
- **NATIONAL ASSOCIATION OF REALTORS® STATISTICAL REPORTS**  
[www.nar.realtor/research-and-statistics](http://www.nar.realtor/research-and-statistics)
- **NATIONAL ASSOCIATION OF REALTORS®, VALUATION SERVICES MATRIX**  
[www.nar.realtor/appraisal-valuation/valuation-services-matrix](http://www.nar.realtor/appraisal-valuation/valuation-services-matrix)
- **REALTORS PROPERTY RESOURCE® (RPR)®**  
[www.narrpr.com](http://www.narrpr.com)

### ➤ APPRAISAL BLOGS

- [birminghamappraisalblog.com](http://birminghamappraisalblog.com)
- [sacramentoappraisalblog.com](http://sacramentoappraisalblog.com)

### ➤ BANKRATE

[www.bankrate.com](http://www.bankrate.com)

### ➤ FANNIE MAE

[www.fanniemae.com](http://www.fanniemae.com)

### ➤ FREDDIE MAC

[www.freddiemac.com](http://www.freddiemac.com)

### ➤ JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

[www.jchs.harvard.edu](http://www.jchs.harvard.edu)

### ➤ PILLAR TO POST COST GUIDE

<https://pillartopost.com/cost-guide>

### ➤ REMODELING MAGAZINE COST VS. VALUE REPORT

[www.costvsvalue.com](http://www.costvsvalue.com)

### ➤ S&P CORELOGIC CASE-SHILLER HOME PRICE INDICES

<https://www.spglobal.com/spdji/en/index-family/indicators/sp-corelogic-case-shiller/sp-corelogic-case-shiller-composite/#overview>

➤ <https://www.spglobal.com/spdji/en/index-family/indicators/sp-corelogic-case-shiller/sp-corelogic-case-shiller-composite/#overview>

### ➤ UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE (USPAP)

[www.uspap.org](http://www.uspap.org)



## REALTOR® CODE OF ETHICS & STANDARDS OF PRACTICE, ARTICLE 11

*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

*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

*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)*