A MARKET VALUE ANALYSIS

If you are selling your home, you will need an accurate idea of your expected contract price or market value. Your agent can help with this. While some agents might present you with a wad of printouts and offer a ration of verbiage about your expected price, others could take a more direct approach and merely ask *you* what you would like. Still others will check with the local tax assessor's office, deferring to them the decision on your home's value. And finally, your *guess* will usually be more accurate than Zillow.

None of these methods will be satisfactory to you or your agent, who will be happy to prepare an "appraisal style" market value analysis. It is the method that is important, not the look of the report. At this point we should reinforce the distinction among the following:

- Your **tax assessment** is set by a local government official and is the basis for your real estate tax bill and *nothing more*.
- An **appraisal** is an estimate of your property's market value prepared by a professional, state-licensed appraiser. It is several pages long, is prepared in conformance with a set of accepted guidelines, and is required by mortgage lenders before making a loan. A fee is charged for this service.
- A **market value analysis** is prepared by a real estate agent. When done *properly* it follows the form of the appraisal method called "determination of value by comparables" or "the sales comparison approach" but does not necessarily conform to a detailed set of guidelines.

There is wide latitude for the use of judgment in an agent's market value analysis: Good judgment will produce a superior result. A description of a typical market value analysis follows, so that you will have a better idea of the procedure. This will facilitate your review of the analysis that your agent prepares in order to predict your home's market value or expected contract price.

The critical first step in the process is finding three (or more) similar sold properties. "Similar" does not mean exactly the same. A proper choice requires judgment and experience but the ideal homes are within a mile, have sold within the past year, and are the same style, colonial, for example. The choice is sometimes obvious, sometimes nearly impossible. Properties currently under contract, sold but not yet settled, can be used but your agent must obtain the contract price from the listing agent.

The procedure uses **sold** properties to predict market value. Asking prices of homes on the market *cannot* be used for this purpose: They will predict only a price at which your home will *not* sell because these properties have not sold yet themselves. But if the asking prices of some similar nearby homes are so low that you might not be able to achieve the predicted contract price, then the analysis should be repeated using those homes. Information from unsold properties should be used only to answer the question: How much do you need to *lower* your expected contract price (which was predicted from the sold properties) as a result of the low asking prices of the nearby homes? Do not fall into the trap of spending time and effort predicting a price that is too high, and which will only keep your home on the market unsold. It is easy to find a price that is too high without all that complicated analysis stuff. But resolve to do it right. By comparing your home with **sold** properties you will be setting the stage for your home to **be sold**.

The contract prices of comparable properties that sold more than a few months ago could be adjusted for time, that is, for appreciation or depreciation. But this adjustment will not be required in a market where prices move very slowly. Next, significant differences between your property and each comparable property must be identified and dollar adjustments made. Dollars will be added to the contract price of a comparable home for features your home has but the comparable home does not have. Think of this procedure as "buying a deck for the comparable" to make it equal to the deck that your home already has. Dollars will be subtracted from a comparable home's contract price for features it has but your property does not have. Think of this procedure as "taking the value away from the comparable home" for its two-car garage that your home lacks.

The list of features that make a difference is almost endless, but items with a value less than about $500 can usually be ignored. No adjustment, positive or negative, is required for any feature that both your home and the comparable property have. Values assigned to features are a matter of judgment. They should measure what today's buyer will pay for that feature in a similar home. Values are *not* the original cost of the feature, nor its replacement cost today. The classic example is a $50,000 in-ground swimming pool, which often is found to be worth only $10,000 or $20,000 to a typical buyer. Condition is important, but difficult to gauge.

When the contract prices of the three comparable properties have been properly adjusted with appropriate positive and negative values, you will have three individual estimates of your home's market value. These three numbers should be in a reasonably tight range. Using experience and judgment, your agent can suggest a single expected contract price for your home. This figure need not be the arithmetic average nor the median value.

This series is excerpted from David Rathgeber's $ELLING YOUR HOME in the Washington, DC Metropolitan Area
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