

Your Home's Value

Market value analysis is not an exact science. When properly done, however, it provides invaluable information: Your property's expected contract price. Selection of three or more comparable or similar properties from the MLS database is a critical first step. An ideal comparable will be:

- ◆ Recently sold, within the past six months or, at most, within the past year
- ◆ The same style, for example two-story colonial, or split-level
- ◆ Similar in size
- ◆ Within a mile and similarly located, for example, within a subdivision
- ◆ On approximately the same size lot
- ◆ Within five or ten years of your home's age, but avoid comparing a resale home with a brand new one.

The properties must have been sold on the open market. Sales between members of the same family, with extraneous considerations, or quick, forced or distress sales cannot be used. Good judgment is required to select the most similar properties, but the *prices* of comparable sold properties should not be one of the selection criteria.

To account for the fact that the comparable properties are not identical to your home, dollar adjustments are made to the contract price of each. A positive adjustment is made to the contract price of a comparable property when it lacks a feature that your home has. A negative adjustment is made when your home lacks a feature that was present in one of the comparables. If your home and a comparable home both have a particular feature, no adjustment is made. Adjustments for appreciation or depreciation can be made when local prices are moving quickly. The list of items for which adjustments might be made is almost endless, but anything with a value of less than \$500 usually can be disregarded.

It is usually impossible to make an adjustment for a comparable home's condition. This is a rather subjective concept, and is compounded by the fact that sold properties cannot be inspected in their on-the-market condition. In the absence of compelling contrary information, each sold home is considered to be in average condition. A home's condition is a very important factor, but an attempt to account for it in dollars will often introduce inaccuracies. Remember that you are predicting a contract price for a home in average condition. If your home is deficient, it will bring at least 5% to 10% less than if it were in average condition. On the other hand, if it is in exceptional condition, it is worth extra money.

Each dollar adjustment represents an opinion regarding the value of the feature to today's home buyer. It is not

related to the original cost or today's replacement cost. Also keep in mind the concept of marginal utility: A home's first bathroom is almost a necessity, and as such is probably priceless; the second bathroom can be valued at a bit less; but having seven bathrooms instead of six will be nearly worthless to the average home buyer. Similarly, if you added 10% on to the floor space of your home, its value would normally increase by something *much less* than 10%. Another example is that a single (indivisible) one-acre building lot does not sell for four times as much as a quarter acre lot, assuming they are in the same general area.

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, one can suggest a single expected contract price for your home. This figure need not be an arithmetic average or the median value.

Note that the example below uses **sold properties** to predict the market value of a home.

Subject Property-Your Home

Address	Comp 1	Comp 2	Comp 3
Days On The Market	68	104	57
Time Adjusted Price	614,000	650,500	621,000
Positive Adjustments			
BACKS TO PARKLAND	14,500	0	14,500
DECK	11,500	11,500	0
LOT SIZE	10,000	0	6,000
WALK-OUT BASEMENT	0	0	18,600
Negative Adjustments			
EXTRA BATHROOM(S)	-4,800	0	-6,800
EXTRA FIREPLACE	0	-2,700	0
HOME SIZE	-16,000	-41,000	0
Total Adjustments	15,200	-32,200	32,300
Property Value	629,200	618,300	653,300
Probable Sale Price \$635,000			

The preceding example illustrates the determination of fair market value by the sales comparison approach. The dollar value of any particular feature might vary from one home to another. For example, a small townhome deck is obviously less valuable than a large multi-level deck attached to a \$2,000,000 property. It takes a lot of experience to prepare an accurate market analysis. This article introduces the essential ideas so that you can recognize a properly prepared analysis and appreciate the underlying concepts.

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