



THE REAL ESTATE REPORT

February 2008

A monthly column on the real estate market and related issues in the upper Hudson River Valley by Roderic H. Blackburn, principal of R. H. Blackburn & Associates, Inc.—Real Estate of Hudson and Kinderhook, NY. It also appears in *Berkshire HomeStyle* and *Capital District HomeStyle* magazines. If received in error notify blackburn@berk.com. Questions welcome.



What Value? Rational ways for sellers and buyers to estimate property values.

The crossroads of real estate is price. When seller and buyer -- with the help of brokers, agents, appraisers, and lenders -- come to a "meeting of the minds" as to a mutually acceptable price, they are at the crossroads of a new life. Of course actually coming up with an agreed value is the *sine qua non* of "the deal." Since many deals fail for want of agreement on this point, it is smart for both buyers and sellers to prepare themselves ahead of negotiations to understand the actual market value of the property in question.

Guessing is not good enough

"Market Value" has a specific meaning in real estate: it is the probable price at which a willing seller and a willing buyer will agree, acting knowledgeably, prudently, and without compulsion in their own best interests in an arms-length transaction, neither being encumbered by undue pressure to sell or buy, and assuming reasonable time for exposure of the property in a free and open market. There are a number of "wobble words" in that definition; they point to many of the personal and property variables which affect "market value."

Unlike stocks and bonds which are easily valued and traded in generally liquid and efficient markets, most real estate parcels are unique and not comparable -- or at least not equivalent -- to others. Where a parcel is located is often the most important variable in determining market value; for example, a mansion in a slum may be valued lower than a ranch house in a desirable suburb. The size of the lot and livable space of the house are important to value, although these can be much modified by age, condition (including upgrades), tax and utility costs, and likely maintenance expense. It is little wonder that sellers, by their own calculations, emotionally and selectively looking at their homes in comparison to others, will not likely come up with a realistic market value without help. At least initially most buyers are equally unqualified to understand valuation, especially in an unfamiliar market. Unlike sellers, however, they can usually get a sense of value -- or at least its determinants -- quickly enough by viewing several properties. Without calculating value on a square-foot basis, they often develop an intuitive sense of market value which they then apply to the properties they view. Of course both buyers and sellers are nearly always swayed by their personal likes and dislikes of a specific property's features. These individual considerations may raise or lower their sense of value, even significantly so. Then again such likes and dislikes may not impact an



What's it worth? It could be a bargain at \$2,500,000 or a white elephant at \$250,000. Most of its value is in location, some in architecture, more in usefulness, grade and condition, yet it is still the same building. That is why guessing doesn't work for unique properties.

agreed price for a specific property if the successful buyer is marketwise and personally disciplined.

So if you are a seller or buyer "guessing" at what a property is worth, how can you sharpen your estimating skills? There are a number of methods and sources of information you can and should use, ranging from no cost -- or merely "leg work" -- to moderate expense (compared to a given property's value and the risk of over or under-pricing).

Where to find your property's value

1. **Study what is for sale now.** Pick up local real estate buyer's guides (magazines and newspapers) and identify similar properties in neighborhoods of equivalent quality. These will at least give you an idea what owners are asking, although not the prices at which properties actually sell. In fact a selling price may be 5 -15% less than the advertised asking price at the time agreement is reached -- even after price reductions. Keep in mind that properties often come on the market at relatively high asking prices which must later be adjusted down to near market level before selling.) Go to www.Realtors.com sponsored by the National Association of Realtors, which advertises listings from

Multiple Listing Services (MLS's) in your region and around the nation. For buyers this is especially handy if moving to a distant location. You may also be able to locate the local MLS to do the same online search, although some sites are not available for public access. These sources will help to place a seller's asking price (and a buyer's expectations) at least in the "ball park" of reality.

2. Unless you think you can sell your property on your own (keeping in mind that FSBO, "for sale buy owner," selling success is only about 17%), the next step in valuation is to **ask brokers or their agents** to discuss listing your property for sale. In the process of ascertaining what an agency will do to promote your property, ask for a CMA, a comparative market analysis. The agency will look up comparable sales in recent months in your area and, adjusting for size, condition and other property features (views, pool, garage, etc.), will be able to show you the likely market value of your property and recommend a suitable asking price (not too low unless a quick sale is needed, not too high lest no one comes to see the property). The dangers in this process have to do with greed: owner greed for listing with the broker recommending the highest suggested asking price; broker greed for giving an overly high value in order to get the listing. It is a rare seller who can resist this temptation, accounting for why so many properties remain on the market for a year or more. On the contrary, a good CMA should be the basis for a realistic listing price. Choose your listing broker on other crite-

ria: market plan, website, ads, brochure, proximity, word-of-mouth reputation, personal attention. These days 85% of buyers begin by conducting their own research online; so be sure a broker will have your property on the local MLS site. Also be sure that the brokerage's website comes up on the first page or two of an internet search, has comprehensive coverage of individual properties, and is attractive and easy to navigate. Print ads are reassuring but if your likely buyer is from outside the region (including weekenders), put your bet on the web.

3. **Multiple Listing Service websites** are valuable research tools where available. Most regions (a city, county or group of counties) have a MLS where most brokers cooperate to show their listings and co-broke (share commission) with other brokers who bring them buyers. Many MLS sites are now available to the public for perusal of current listings. Some are for the exclusive use of member brokers, which is <http://www.Realtors.com> unreasonably selfish and silly since you likely can find most listings on www.Realtors.com anyhow. Although you are not likely to find anything other than current listings on MLS sites, members do get access to additional information: properties which have sold (often going back a dozen years), as well as expired, released or withdrawn listings, and those with accepted offers or in contract. Up-to-date sold property information is invaluable to you as a buyer or seller. You can get this information through a broker with whom you have an established relationship if the broker is acting as your seller's broker/agent or buyer's broker/agent (relationships covered in prior Real Estate Reports). Whether you are a buyer or a seller, a broker's information is a good guide to what you should be asking for your property or, as buyer, should offer.

4. **Real estate appraisals** are another level of market value analysis. They are done by licensed appraisers trained to do just this. (Some brokers or agents have also taken these courses and are licensed.) While a CMA is a good guide to market value, lending institutions require the extra professional assurance of an appraisal. Realizing that properties are not exactly comparable and that, therefore, subjective judgment may supersede objective valuation, appraisers are held to a higher standard and must come up with a market value for a property when compared to its closest "comps," properties sold in the same or a similar neighborhood in recent months. To further ensure comparability, appraisal reports usually use a standardized form, such as the Uniform Residential Appraisal Report, where the reader can follow all the adjustments made to comparable properties to arrive at a market value "opinion" on the subject prop-

erty. Note the word "opinion." Appraisals, CMAs and off-hand estimates are still viewed as opinions. It is when buyer and seller conclude a sale that market value is established as fact.

A smart seller will ask his broker for a CMA to establish a realistic listing price. Even more prudently he may pay \$500 or so to have a formal appraisal done, in part to establish price, but even more to show a prospective buyer that the listing price bears a known relationship to what the property should likely sell for. This has a wonderful way of facilitating a "meeting of the minds" and costs a fraction of the monthly carrying costs of a property.

5. Another approach is **valuation based upon cost**, in effect the cost of replacement or re-creation of the property. This method begins with known current values for the purchase of land and expense of construction (cost per acre and square foot construction). This will work well enough for standardized residential lots and houses, but especially with country properties further adjustments need to be taken into account: location, landscape (views, water), privacy (from noise and adverse views), architectural desirability (high expense alone does not always translate into added value), construction and utility grade (radiant heat, central air), interior finish grades (especially the quality of kitchen and bathroom features), amenities (pool, office/library, entertainment room, fireplaces), garage/barn, and garden/landscaping.

Many upper-grade features are especially valued by high-end weekenders in the Hudson River Valley market. Despairing that conventional CMA's and appraisals were not sensitive enough to these features, I developed my own **cost-basis valuation program** based on experience with what people are willing to pay for. Would you guess that river-front property can command a premium of 40% over the same property with just a mountain view? Or that the height of ceilings is as important to some buyers as room floor size? Or that the wrong proportion and detailing of interior and exterior trim, windows, doors, and columns can keep a house an extra year or more on the market and result in selling at a lower price than cost would have indicated. Good taste in design pays, but as for bad taste, well . . . I just saw a 12,000 square foot house built to the owner's aesthetically challenged taste. It will not sell for half what he has in it. Before you sell, before you buy, and even before you build, test all opportunities against smart valuations. See a broker, hire an appraiser, and listen carefully to an architect, designer, and/or construction manager about what may happen when your dream property goes back on the market - which it assuredly will sooner or later.



No joke, this house is actually lived in! A few thousand dollars? Guess again, it is in the historic district of that most pricy of historic towns, Charleston, SC. Flood proof living, high enough for cooling sea breezes, it is affordable housing where nearby townhouses go for millions. Establishing market value is a high skill at any level, especially when a property is unique.