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Completing a CMA

Market Value Definition:

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Basic Guidelines:

Bracket!!!! Bracket!!!! Bracket!!!!

One bigger, one smaller. One older, one newer. One larger site, one smaller site.

Find the best comparables.

Base results on sales, use listings to back up that result.

Use dollar adjustments, not price per square foot.

Base your final conclusion on the comparables you used.

Choosing Comparable Sales:

If possible, stay within the same subdivision as the subject or ideally, stay within one mile of the subject. In more rural areas, stay within same "MLS area or town"

Try to limit the range in square footage to no more than 25% on either side of the subject's size. It is good to **bracket** the size of the subject with some smaller and some larger.

Limit your first search by location, square footage and age.

If you have a determining characteristic such as waterfront, golf course or view, try to have at least some of your comparables have a similar characteristic.

The comparables that have closed most recently are generally the better indications of current market value. FHA requests comparables to be within six months. Underwriters want an explanation if they are older than six months and generally do not let you use a comparable that closed over one year ago.

The less adjustments you have to make, the better indicator of value your comparables will be for your subject. There are very few "perfect" comparables.

Adjustment Guidelines

Sales Concessions: The amount of closing costs paid on the buyer's behalf must be deducted from the sales price. There are a few exceptions but not often.

Site: Adjustments for difference in lot sizes are typically between 33-50% of the land value. But keep in mind that major differences in sites are the only ones to be adjusted.

View: The view adjustment is difficult because of the great disparity in views. For instance, it can range from \$2,500 for backing to a wooded area to \$50,000+ for a lake view.

Design: This adjustment is rarely made as comparables are chosen to be similar in design. **Possible examples that may require adjustment.... Log, Rammed Earth, Green.**

Quality: Made for differences in construction material such as flooring material, roof type, granite counters, etc. Typically ranges from \$2,500 for some tile flooring to \$5,000/\$10,000 for a metal roof to \$50,000+ for a home that has many upgrades in quality. Higher end properties can have much higher adjustments.

Age: New homes depreciate at a greater rate than older homes. For lower to mid priced homes a typical adjustment is \$1,000 per year. The difference between new construction and a home that is a few years old may be \$2,000+ per year. Make sure the adjustment needs to be made and isn't actually a condition adjustment.

Condition: Adjustments between \$2,500-\$5,000 are reasonable for new carpet and paint. Homes that have been totally renovated can be much more. **Cost does not equate value.**

Bedrooms: If the property is one or two bedrooms, try to have all of the comparables be similar in bedroom count. Typically, the difference in bedroom count is made in the living adjustment. If adjustment is needed - \$5,000.

Bath: For a lower to mid price home the bathroom adjustment ranges from \$1,500-\$4,000 per half bath. For upper end properties, the adjustment can be \$10,000 per half bath.

GLA: A rule of thumb is approximately 33-50% of the dollar/square foot. For example, if comparables are selling for \$100/SF the adjustment would be about \$33-\$50 per difference in living area. Try to use comparables that are as close as possible to the subject's size and try to bracket the subject's size with the comparables - some larger some smaller. Don't adjust for differences less than 100 sf.

HVAC: Central heat/air adds about \$3,500-\$5,000 for a smaller home. Larger homes can be significantly more.

Garage/Carport: A garage adjusts for about \$2,500-\$5,000 per bay. A carport is about \$750-\$1,500 per bay.

Porch/Patio: A porch, patio or deck adjustments for \$1,000-\$5,000, more if it is covered. Make sure you need to adjust.

Fireplace/Wood Stove: Fireplace adds about \$1,500. Woodstove adds \$500-750.

Amenities: A pool in an area where pools are common only adds about 10-20% of its cost. In lower end areas, a pool may not contribute any value to the home. Sprinkler systems add +/- \$2,500. Wood fences add \$1,500-\$2,500. Hot tubs and above-ground pools are typically considered personal property and not included in the value.

Pillar to Post Cost Repair Guide: <http://pillartopost.com/home-repair-cost-upgrade-guide.aspx>

1/3-1/2

Gross Living Area Adjustment

1. Add the price per square feet of comparables and divide by the number of comparables used.
2. Use 1/3-1/2 of the **average** price per square foot to adjust for differences in size.

Adjustments

Always compare the comparable to the subject.

If comparable is **superior** to the subject **subtract** the adjustment from the comparable.

If comparable is **inferior** to the subject **increase** the adjustment to the comparable.

Reconciliation

A **weighted** average can be used if one comparable is better or worse than the others. Best comparable mark as 3. Second best mark as 2. Worst comparable mark as 1. Then take 3 times the final value for best plus 2 times the final value for 2nd best and 1 times the worst comparable. Take that total and divide by 6.