

Get it Listed to Get it SOLD! 2011

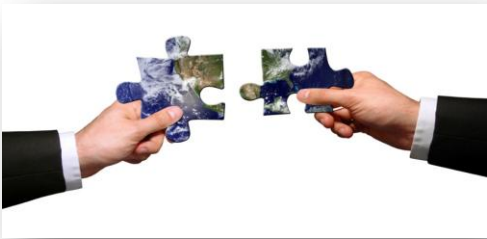
6-Hour Kansas Continuing Education Course

The goal of “Get it Listed to Get it Sold” is to provide tools and techniques that will assist you in positioning seller’s properties to sell for the highest possible amount in the shortest possible time given the current market conditions!

A top agent in Salt Lake City, Utah “coined” the 80% Rule, simply stated as follows:

**“80% of the marketing of your home,
Mr. & Mrs. Seller, happens right here when we select the price!”**

Her point is that no matter how enthusiastic you are about a listing, no matter how many dollars you spend on promoting that listing, it will not sell unless and until it is properly priced for its current market conditions, location, and “staging” or property condition!



Each of the parties listed on this slide provides a part of the **“pricing puzzle.”**

- The licensee gives the seller the comparable sale data so that the seller can make a sound decision.
- The seller sets the asking price.
- A buyer determines “value,” as in “Value is in the eye

of the Buyer!”

- The Appraiser “checks” the value against “market value.”

The CMA

Known both as a comparative market analysis and a competitive market analysis, this LICENSEE-prepared document provides the seller with the information about other properties by which he or she can compare their own property and arrive at a “pricing position.” **“Comps” used include active listings, expired listings, pending contract properties, and solds or closed sales.**

The advantages to sellers of reviewing a CMA include:

- Helps the seller establish market value
- Educates the seller about the current market and their potential competition
- Underlines the importance of buyer’s comparison shopping
- When the seller reviews potential listing agents’ abilities, their CMA’s provide a point of comparison.

The important terms in pricing a property for sale are price, cost, and value:

- Price? The amount “asked” by the seller of a property
- Cost? The amount of money necessary to produce a property
- Value? The worth of a property by comparison to another

Many sellers believe that they must “make a profit” when they sell their home. However, there is no relationship between what they paid for their home and what it is worth in the current market. Like stock, real estate goes up and it goes down.

David Knox points out that if they’d received their home through an inheritance and paid nothing for it, they would still want to sell it for market value! *“The most probable price which 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 and knowledgeably, and assuming the price is not affected by undue stimulus.”* While value, like beauty, is in the “eye” of one beholder, one buyer; market value is that value determined by a group of buyers! Also, that to be “market value” the purchases must not be made under duress or pressure as in a sale motivated by death, divorce, or foreclosure.

Supply & Demand:

Supply and demand determine real estate values just like they do in other areas of commerce.

- **Supply = current listing inventory**
- **Demand = qualified, motivated buyers actively in the marketplace**

“Beanie Babies” by TY, Inc. demonstrate the power of supply and demand. When a Beanie is commonly available it sells for \$5 to \$6 dollars. But because of the lack of availability, that same Beanie may sell for \$3,500! Property prices reflect the same market pressures.

Characteristics of Supply & Demand in Real Estate: Sellers’ & Buyers’ Markets

Seller’s Market	Buyer’s Market
<ul style="list-style-type: none"> • <i>more buyers than listings</i> • <i>full price offers</i> • <i>multiple offers</i> • <i>few if any seller concessions</i> • <i>shorter Days On Market (DOM)</i> • <i>buyers must choose quickly or lose!</i> • <i>prices steady to rising!</i> 	<ul style="list-style-type: none"> • <i>More listings than qualified, motivated buyers</i> • <i>Seller’s make concessions to entice buyers:</i> • <i>points</i> • <i>closing costs</i> • <i>seller financing</i> • <i>Longer DOM</i> • <i>Lower prices</i>

In real estate, the amount of supply versus the amount of demand is defined as a Seller’s Market or a Buyer’s Market. When there are more buyers than sellers, the sellers’ negotiating positions are strengthened. This results in shorter days on market (DOM), higher prices, fewer seller-concessions such as seller paid closing costs, and more multiple offer situations. Buyers must make faster decisions to get the house they choose before another buyer does! The opposite occurs in a buyer’s market. In this market, buyers have the upper hand because there are most properties

available then there are buyers ready, willing, and able to purchase them. Days on market lengthen; sellers make concessions to entice buyers such as paying their closing costs or re-carpeting. Lower sale prices result.

A Comparative Market Analysis or CMA is a document which you the potential marketing agent prepares to educate a seller about the best pricing position, i.e. the price which will produce the fastest sale at the highest possible price with the fewest challenges in the CURRENT MARKET!

To prepare an accurate CMA, you will use the same process that an appraiser uses to establish market value. You will compare the subject property to others that have sold in the same area, with the same floor plan and amenities, in the last six months.

Choose comps as an appraiser would:

- Closed last six months
- Substantially similar in floor plan, ranches to ranches, two stories to two stories
- Geographically proximate, within the same subdivision or within the immediate vicinity

	<i>Differences</i>	<i>Similarities</i>
<i>CMA</i>	<ol style="list-style-type: none"> 1. M.V. approach 2. Agent prepared 3. Establishes range of value 4. Seldom adjusts 	<ol style="list-style-type: none"> 1. Uses comparables 2. Date sensitive 3. Area/amenities
<i>Appraisal</i>	<ol style="list-style-type: none"> 1. Three approaches 2. Appraiser prepared 3. Establishes specific value 4. Adjusts comparables 	<ol style="list-style-type: none"> 1. Uses comparables 2. Date sensitive 3. Area/amenities

Appraisers use three approaches to valuation:

- Comparable (market value) approach,
- Cost (replacement minus depreciation) approach,
- Income (rental income) approach.

Licenseses use only the comparable or market value approach to setting the best list price for their seller.

Many factors regularly affect value. Some of the key factors include:

Physical influences: the condition of the property or the land underlying the property, such as soil, rock, shifting and settling.

Environmental influences include soil contamination in the lot as well as lead, water, radon, etc.

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Economic influences include changes in interest rates as well as commercial changes such as plant closings or new military bases. Existing financing can also affect pricing. For example, in a high or higher interest rate market, a seller with a lower interest, non-escalating mortgage that is assumable by the buyer may receive a higher price or benefit from a faster sale than sellers with no such assumable loan!

Government influences include legal changes, school district changes, or tax increases.

An example of a **Social influence** would be an increase in major crime in an area.

Remember that by social influences, we do not reference the “protected classes” which must not be discussed during the pricing or any other phase of the listing and selling processes!

To prepare an accurate CMA, research the listing and sale statistics for the property area during the past year. It is helpful to compile statistics and keep track of the inventory of homes for sale versus the number of homes that sell each month and each year. For example, if five homes are listed each month and only one home sells each month, the market has a five-month inventory. Therefore the seller must position his house competitively to sell with so much competition and you experience more of a buyer’s market. Whereas, when five homes sell each month and five are listed, the market has only a one-month’s inventory and sale odds increase to “Seller’s Market” conditions!

This list includes other sources of information about the market besides the statistics in the MLS!

- Your office data file
- Ask experienced associates in your office, your company.
- Appraisers [Appraisers call us for information, so don’t worry about returning the “favor!”]
- NAR/KAR articles
- Local newspaper
- Local chamber of commerce
- Financial publications such as the Wall Street Journal
- Touring properties

To better prepare a seller for the type of market in which their home will be sold, keep up with the conditions which affect value from all available sources. When researching properties through your MLS to prepare a CMA, consider each of the four necessary statuses: active, pending, expired, and sold.

- **ACTIVE** listings are those currently on the market for sale. They are your seller’s competition.
- **EXPIRED** listings are those which have been rejected by qualified buyers. Their listings expired without accomplishing a sale.



- PENDING sales are properties that are under contract but not closed. Therefore the prices listed in the MLS are list prices not sale prices.
- SOLD listings are properties that have been actives, then pendings meaning that they were under contract, and now have closed. Therefore the prices are the actual sale prices not the list prices.

Sold properties are your best data. They represent the price and terms which qualified buyers were willing to pay for properties like your subject property within the last six months!
Be sure to include three to five properties for each of the statuses in order to prepare an accurate CMA!

For sold properties, you will need to research the information that assists you in preparing accurate comparable pricing statistics for your seller.

- The list price to sale price ratio averaged for all comparable sales indicates what percentage of list price your seller may expect to attain.
- The days on market (DOM) predicts your seller's DOM as long as the market has not changed.
- The terms of sale and financing predict the likely terms of sale and financing for your seller as well as what sale concessions your seller is like to have to make in order to sell in the current market.

After you've researched the data, complete your CMA form by including the following information about each property. To make sure that the comparable properties you select really are comparable to your subject property, make sure that they are the same in as many of these characteristics as possible!

- Design or floor plan
- Number of rooms
- Square footage (optional)
- Extras and amenities
- Property condition
- Location
- Area amenities
- Sale date

Adjusting Comparables?

Appraisers adjust properties to create appraisals. Real estate licensees do not have the expertise to adjust. Be sure not to adjust comparables unless you research the adjustment

figures from the professionals, the appraisers because they are excellent sources of dollar values.

- Dollar values change from price range to range
- Dollar values change from area to area

As a new associate, you will not be adjusting your comparables. Appraisers adjust comparables when they can't find three of the same floor plan, size, age, etc. as the subject property. When you are more experienced, you will begin to adjust comparables. The best source for the value of adjustments is your local appraiser. Appraisers are trained in adjusting for an extra half bath or more square footage. When you do begin to adjust, you may wish to call an appraiser to learn the value of an extra half bath in the subject property's market area.

Presenting Your CMA to you Seller Client or Prospect:

There are two strategies for presenting pricing to the seller: the pricing first strategy and the pricing last strategy! Most experienced agents use the pricing first strategy. They understand that

if the seller won't price the property properly, they probably aren't interested in taking that seller's listing.

	10	<p>The "10" Approach</p> <ul style="list-style-type: none"> • The movie "Ten" • List sale prices of comps from low to high • Involve the Seller in rating property on all the key points to establish a pricing position!
\$137,900		
\$136,300		
\$131,700		
\$129,300		
\$128,600		
	0	

However, as a new associate you will generally prefer the pricing last strategy. By presenting marketing first, you win the seller's favor and then present pricing once they've decided to list with you! As nationally recognized trained David Knox points out, presenting pricing when they're in a positive mind set, i.e. following your marketing presentation, makes for a happier seller and one more likely to price correctly!

One of the best ways to secure proper pricing is to elicit the best price from the seller rather than impose it on him!

Using the "10" approach, you and the seller together set a 1 to 10 valuation, 10 being highest, for each characteristic of the property. Once you evaluated all the key points, i.e. location, condition, signage, lock box, day sleeper, etc., you can determine an overall value for the property.

For example, if the location is a 9, the condition a 10, but the seller won't allow a lock box that is a 2, then the overall rating might be a 7.

Once the overall rating is decided, place the property in the pricing as follows: Look at the list of comparables by sale price from the lowest to the highest. Place a "10" at the high end and a "0" at the low end. Now place the property where it falls, i.e. at the "7" position.

If the high or “10” is \$137,900 and the low or “0” is \$128,600, then the “7” would be about $\frac{3}{4}$ of the way up the scale or perhaps \$134,900!

By using this technique, the seller feels empowered to price the property himself and feels that you and he are a pricing team not pricing adversaries!

Pricing the property correctly not only procures qualified buyers but it also insures that the property, once sold, will appraise! Because 94% of all home sales in the U.S. are financed rather than being cash sales, the appraisal is a key element of a successful closing. To secure an appraisal at or above the sale price, prepare an ***Appraisal Packet for the appraiser, including all the information he/she will need to make a sound market value decision, including your flyers for the property, the CMA from your multiple listing service, and the data sheet for the subject as well as the best three comparable properties.*** Present the packet to the appraiser when he or she comes to appraise the property. They will appreciate having your data, whether or not they use the comparables you’ve selected. At the very least, the Appraisal packet prevents the appraiser missing a critical comparable and therefore appraising the property below sale price!

Who Hires the Appraiser?

For federally related mortgage transactions, the lender is required to directly hire the Appraiser. Even though buyers pay for the mortgage appraisal, the appraiser works for the lender! The lender hires the appraiser to determine the value of the property to assure themselves that they are not loaning too much. Therefore, when a purchaser takes an 80% mortgage, they are borrowing 80% of the sale price or the appraisal, ***whichever is lower!***

Pricing Non-Residential Properties

HOW DO I PRICE INVESTMENT PROPERTIES?

Let's begin with Income-producing properties that are residential in nature, i.e. multi-family units, whether they are duplexes, tri-plexes, four-plexes, or small apartment complexes.

Remember that value in investment property is determined principally by income!

Let's consider such a property and see how to estimate its value. Begin with the monthly rental income. If there is no current monthly income, you can estimate the monthly income for the subject property based on rent for comparable properties. To determine the value of the property from its income, we use the GRM (Gross Rent Multiplier)

The gross rent multiplier is the ratio of the sales prices of comparable rentals to the monthly rent.

The three steps of the gross rent multiplier are:

- Estimate monthly market rent
- Determine the gross rent multiplier
- Calculate the value

Estimate the market rent, or the rental income a property would most likely command in a competitive market. Note: It is important to be able to distinguish between market rent and contract rent. Contract rent is the actual rental income specified in a lease. Market rent, like market value, is determined by comparing the property to other similar rental properties and then compare their rental income. Be sure to compare "apples to apples," i.e. three-bedroom, one-bath split level duplex to a three-bedroom, one-bath split level duplex!

To calculate the GRM (gross rent multiplier), start with the sales prices and monthly rents of as large a sample as possible of comparable residences that have recently soled. Preferably, secure at least five comparable rents. Too few will skew the results and give a GRM that isn't dependable for the market area.

For each comparable, divide the sales price by the monthly rent.

Example:

For a property that sells for \$65,000 and has a monthly rent of \$600, the GRM is 108.3, or

$$\begin{array}{l} \text{Property Price } \$65,000 \\ \text{Monthly Price } \$600 = 108.3 \text{ GRM} \end{array}$$

The gross rent multiplier approach assumes that there is a reasonably consistent ratio between price for which a residence sells and the price for which it will rent. The GRM is determined by combining data from as large a sample of comparable properties as possible into a single number. Appraisers may use the statistical measures of range, mean, median, and mode to select a single GRM to use.

To calculate the value of a property, multiply the estimated market rent for the subject property by the gross rent multiplier.

Example:

Consider a subject property for which the estimated rent is \$1,200 and the gross multiplier is 111. The estimated value is:

Estimated Rent	\$1,200
GRM	<u>111</u>
Property Value	\$133,200

The cost approach involves estimating the value of the site and improvements independently, then combining them to obtain an estimate of property value.

The cost approach formula is:

$$\begin{aligned} &\text{Reproduction or Replacement Cost New} \\ &\quad - \text{Accrued Depreciation} \\ &\quad + \text{Site Value} \\ &= \text{Estimated Property Value} \end{aligned}$$

Reproduction cost is the cost to produce an exact duplicate of the building, down to the last brick, at current prices, using the same materials, standards, design, layout, and quality as the original building.

Replacement cost is the cost of building a structure with the basic function and structure as the current building, but built with modern materials, according to current standards, design and layout.

Accrued depreciation is the difference between the current value and the new cost of the improvements. It includes all forms of depreciation and is also known as diminished utility.

Appraisers are trained to figure accrued depreciation, but most real estate licensees are not.

To estimate site values (the value of the site or the vacant land), research the comparable or market value of the land as if it has no structure on it. Remember that vacant means ready for building and able to be developed to its highest and best use.

This is most commonly done using the sales comparison approach to answer the question, "For what price have similar sites recently sold?"

The **income approach** leads to an estimate of the current value of the property based on the future benefits of owning the property. The income approach is actually comprised of an entire family of techniques.

The **two main techniques** are:

- **Gross rent multiplier (residential)**
- **Direct capitalization (commercial)**

The gross rent multiplier, or GRM technique, is used for the valuation of simple rental properties, such as single-family residences, duplexes, and apartments of up to four units.

For review, the GRM formula is:

$$\begin{array}{r} \text{Estimated monthly income} \\ \times \text{gross rent multiplier} \\ \hline = \text{Value} \end{array}$$

The **direct capitalization technique** is used for valuing commercial real estate and for residential properties with a large number of units.

It involves calculating net operating income, then dividing the net operating income by a capitalization rate to estimate the property value.

Direct capitalization is not typically used for single-family residential and smaller multi-family properties primarily because the typical buyers and investors are not knowledgeable of or interested in the level of detail involved in this approach.

For more information about direct capitalization, take a commercial real estate valuation or appraisal course.

How Does an Appraiser Determine Value?

For each assignment, USPAP (the appraiser's code of ethics and practice) requires an appraiser to use all three approaches to value. If the appraiser fails to use any of them, she or he must justify the basis for the omission in her report.

Once an appraiser reaches an estimate of value for each of the three approaches, she reconciles them. In most cases, values resulting from the three methods vary. The basis of her decision is the strength of the data collected. The appraiser never averages the three values to arrive at a final estimate of value. Instead, she reports one of the values as the final estimate, and indicates whether the other two estimates support the final estimate.