

Quant QCi_{tm} - Scoring the Comps

Investor Over-Improvement and Its Impact on Profit

Investor over-improvement occurs when too much money is spent upgrading a property beyond what the local market can support. This can happen when investors add high-end features, materials, or renovations that exceed what buyers in that area are willing to pay for, leading to diminishing returns.

Key Effects of Over-Improvement:

1. **Reduced Return on Investment (ROI):** The primary risk is that the property's sale price won't cover the costs of the upgrades. Even with significant improvements, the market may not recognize the added value if comparable properties in the area are at a lower quality level.
2. **Longer Time on Market:** Over-improved properties may stand out, but not always in a positive way. Buyers may view the home as overpriced for the area or unnecessary for their needs. This can lead to the property sitting on the market longer, increasing holding costs for the investor.
3. **Limited Buyer Pool:** The more a property exceeds neighborhood standards, the smaller the pool of buyers who can afford or are interested in purchasing it. In many cases, buyers seeking luxury features are also looking in higher-end neighborhoods, making it harder to sell an over-improved property in a modest area.
4. **Appraisal Challenges:** Appraisers use comparable sales in the area to determine property value. If the property is significantly upgraded compared to local comps, it may appraise for less than the sale price, complicating financing for potential buyers.

Quant QCi: - A Comprehensive Tool for Real Estate Valuation and Improvement Control

Quant QCi is a specialized scoring method developed by House2HouseAppraisal for real estate professionals to accurately assess and compare residential properties. It assigns numerical values to comparable properties using consistent relative measures, helping appraisers, real estate agents, and investors make informed decisions. The core metrics used in Quant QCi include:

- **Percent New (Condition):** Reflects the overall condition of the property, considering how "new" or well-maintained it is relative to similar properties. The number reflects the Condition Score divided by total points possible.
- **Percent Upgrade (Quality):** Assesses the quality of finishes, materials, and enhancements made to the property. The number reflects the Quality Score divided by total points possible.

By quantifying these factors, Quant QCi allows professionals to determine if a property is at risk of over-improvement compared to its market environment. This method provides clarity in valuation while guiding appropriate renovation and investment decisions, ensuring that improvements align with market expectations and avoid diminishing returns.

The tool uses 22 of the most observed features of existing recently remodeled or renovated homes. Quality and Condition is scored using a point system for each of the 22 features.

The feature Quality Score is either "Better than Expected" which scores the feature with 2 points or "Expected" which renders a score of 1. If the feature is missing a Quality Score of 0 is recorded.

A Condition Score for each individual feature is also recorded. Features which are determined to be "New" get a score of 5 points, "Like New" 4 points, "Good" 3 points, "Fair" 2 points, "Poor" 1 point, and None 0 points.



Quant QCi

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Quality Scores			
Upgrade	2	Better than expected	
Standard	1	Expected	
None	0		

Condition Scores		
New	5	Tags still on
Like New	4	80% Life Remaining
Good	3	Good Enough to not replace
Fair	2	Goes on the list to replace
Poor	1	Top of the replace list
None	0	Something is better than nothing

Comparable 1

Maple Way
Houston, TX 77015

Feature/Item	Type	Quality	Q Score	Condition	C Score	Feature/Item	Type	Quality	Q Score	Condition	C Score
1 Roof	Comp	Standard	1	Like New	4	12 Bathroom Cabinets	None	None	0	None	0
2 HVAC Air Conditioning	Central	Standard	1	Good	3	13 Bathroom Counters	None	None	0	None	0
3 Siding	Brick	Upgrade	2	Good	3	14 Bathroom Shower/Tub	None	None	0	None	0
4 Windows	Dual Pane	Upgrade	2	New	5	15 M Bathroom Floor	Tile	Standard	1	Like New	4
5 Foundation	Slab	Upgrade	2	Good	3	16 M Bathroom Counter	Natural Stone	Upgrade	2	New	5
6 Kitchen Cabinets	Hidden	Upgrade	2	New	5	17 M Bathroom Cabinets	Hidden	Upgrade	2	New	5
7 Kit Countertop	Natural Stone	Upgrade	2	New	5	18 M Bathroom Lighting	Original	Standard	1	Good	3
8 Kitchen Floor	WL Tile	Upgrade	2	New	5	19 M Bathroom Trim	Base	Standard	1	Like New	4
9 Kitchen Appliances	Stainless	Upgrade	2	Like New	4	20 M Bath Shower	Custom Shwr	Upgrade	2	Like New	4
10 Open Design	None	None	0	None	0	21 M Bathroom Bath Tub	Tub	Standard	1	Good	3
11 Kitchen Island	None	None	0	None	0	22 Interior Wall and Trim Paint	2 tone	Upgrade	2	New	5
								Quality Score Total	28	% Upgrade	64%
								Condition Score Total	70	% New	63%

The above process is repeated for each of the individual comparables and the subject. The results are tabulated below.

	Quality Score	% Upgrade	Condition Score	% New	Sale Price	Description
Comp 1	28	64%	70	64%	\$220,000	3 Bed 2 Bath
Comp 2	36	82%	96	87%	\$250,000	3 Bed 2 Bath
Comp 3	26	59%	69	63%	\$228,000	3 Bed 2 Bath
Comp 4	28	64%	77	70%	\$225,000	3 Bed 2 Bath
Comp 5	24	55%	45	41%	\$249,000	5 Bed 3 bath
Subject	40	91%	103	94%	\$260,000	3 Bed 2 Bath

The above resulting table shows each comparable and the subject with correlating QC Scores and their corresponding %Upgrade and %New results.

The subject property build plan over-shot their primary comps 2-4. The property was listed for \$260K where it stayed for over 100 days. The investor should have targeted the Quality Score between 34-35 and the Condition Score between 80-90.

When you add up the additional holding costs, project time, and unnecessary contractor time and materials, this mistake cost the investor well over \$10,000.

Every project needs to "score the comps" to insure you are meeting and not exceeding market demand. Every project needs to have an appraiser on their team watching out for its bottom line. Your appraiser will provide you with an accurate ARV, score your comps, and provide you with a premarket appraisal so you can sell the home without extended DOM.

Important: The above version of Quant QCi focuses mainly on interior features. Landscape, flatwork, siding, lot view, exterior finishes, and other features appear in other versions of QCi and are available upon request. Email your questions to matt@house2houseappraisal.com