

Preparing a CMA and Understanding the Appraisal Process

Continuing Education

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PART ONE

THE CMA

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What is a CMA?

Wikipedia says:

A Comparative Market Analysis (CMA) is an estimate of the home's value compared with others. This differs from an appraisal in that property currently for sale may be taken into consideration (competition for the subject property)

Another definition:

A method of determining the approximate market value of a home by comparing the subject property to other homes that have sold, are presently for sale, or did not sell in a given area.

Also called:

Competitive Market Analysis and Comparable Market Analysis

Real estate agents use CMAs as part of their listing presentations.

A well-prepared CMA *should* reflect a range for the current market value of a home.

What is a COMPARABLE?

A comparable is

- ▶ similar in size
- ▶ similar in quality
- ▶ similar in condition
- ▶ with similar amenities
- ▶ most proximate
- ▶ most recent

Similar to WHAT?

Similar to the **SUBJECT PROPERTY**

There is a difference between a
COMPARABLE
and a
CLOSED SALE

Every closed sale is NOT necessarily
COMPARABLE to the subject
property!!

What are the differences between a CMA and appraisal?

CMAs are typically prepared by licensed real estate agents (REALTORS®) to assist homeowners in developing a list price for their home.

CMAs typically consider recent sales and active listings in the subject neighborhood.

What is an APPRAISAL?

An unbiased opinion of market value, supported by extensive research and data

An APPRAISAL can ONLY be completed by a state licensed or state certified Real Estate Appraiser.

Preparing a CMA

Step 1: Define and choose the market area or neighborhood

- ▶ Are there clear neighborhood boundaries?
- ▶ Use the MLS map tool!

Step 2: Begin the search for comparable sales and listings

- ▶ Start with 12 months past
- ▶ Property type
- ▶ Currently active or pending
- ▶ Living area - 25% more or less
- ▶ Condition - eliminate LEAST similar (new, fair, poor)
- ▶ Amenities, if necessary/significant
- ▶ Bedrooms/bathrooms, if necessary/significant

Step 3: Narrow the results to those sales and listings most recent AND comparable

- ▶ Review EACH listing
- ▶ Read all comments
- ▶ Look at the photographs
- ▶ Call the listing agent for more information

Step 4: Prepare the CMA!

- ▶ Actions - CMA
- ▶ Select contact name/create a new contact
- ▶ Pages
- ▶ Subject
- ▶ Cover
- ▶ Comparables
- ▶ Map
- ▶ Adjustments
- ▶ Pricing
- ▶ Finish!

Let's do another one.....!

Now what?

How to read the CMA And Presenting the CMA to your client

Summary of Comparable Listings (includes Sold Listings)

- ▶ A list of those comparable sales and listings chosen for the CMA
- ▶ Explain to your client how these comparables were selected
- ▶ Low, Median, Average, High

CMA Price Adjustments (if you made adjustments)

- ▶ Each comparable “gridded” side-by-side with features compared to the subject
- ▶ Explain, explain, explain!

Minimums and Maximums

- ▶ If you've chosen *comparable* properties, these ranges will be very small

Number of Days On Market

- ▶ Highest number of DOM, most likely priced above market indicators (“overpriced”) Or - the listing does not appeal to typical buyers.
- ▶ Lowest number of DOM, priced at or slightly below market indicators.

Number of days on the market is a critical talking point with your client! No one wants their home to sit on the market for days and days. If the home is less appealing, possibly suggest pricing slightly below market indicators.

List Price and Sale Price

- ▶ Illustrates the list to sale price ratio, what your client can expect if their home is price according to market indicators
- ▶ Compare to the Days on Market graph
- ▶ Another great talking point

CMA Pro Report

- ▶ Details, including comments, about each sale and listing included
- ▶ General overview of selected properties

CMA Summary

- ▶ This is what your client is used to seeing
- ▶ BE CAREFUL! If you haven't chosen truly comparable properties, LP/SqFt and SP/SqFt will be skewed
- ▶ **PRICE PER SQUARE FOOT IN THE NEIGHBORHOOD IS NEVER A GOOD INDICATOR OF PRICING!**

3-up Comparison

- Compares the selected listings to each other

Pricing Recommendation

- ▶ Valuable information for your client
- ▶ Suggests factors to consider when pricing the home
- ▶ Discusses pricing the home correctly and competitively
- ▶ Also a good time to point out possible issues or suggest repairs

- ▶ Activity vs. Timing
- ▶ “My Guarantee to You”
- ▶ The Effect of Over Pricing (!!)
- ▶ The Benefits of Using A Professional REALTOR®
- ▶ Market Analysis Explanation
- ▶ The Importance of Pricing
- ▶ Setting the Price
- ▶ The Pitfalls of Overpricing
- ▶ Where a Commission Goes
- ▶ Sources of Buyers
- ▶ Steps to a Positive Showing
- ▶ What it takes to Show
- ▶ CMA Map Layout

Time for a BREAK!

UNDERSTANDING THE APPRAISAL PROCESS

What is an appraisal?

An appraisal is an unbiased opinion of value based on in-depth analysis of data

What is market value?

Fannie Mae says:

Market value is the most probable price that 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, knowledgeably and assuming the price is not affected by undue stimulus.

Who can order an appraisal?

Who is “the client” (to an appraiser)?

Purposes of an appraisal

- ▶ Mortgage lending
- ▶ To assist in making a decision
- ▶ Cash purchase
- ▶ Succession
- ▶ Divorce
- ▶ Court-ordered
- ▶ And sometimes, just because!

Types of appraisals

- ▶ Real Property - commercial and residential
- ▶ Personal Property

Types of Residential Appraisals

- ▶ Single-Family
- ▶ Multi-Family (2-4 units)
- ▶ Condominium
- ▶ Vacant Land
- ▶ Time Share

What does an appraiser do during the visit to the property?

- ▶ Measures to obtain the living area and total area
- ▶ Notes the condition
- ▶ Notes the amenities
- ▶ Notes any detrimental or unsafe condition
- ▶ Takes lots and lots of photographs

FHA and VA Requirements:

The home must be safe, sanitary, and secure for the borrower.

Both have MPR - Minimum Property Requirements

Both require that the appraiser view the attic

As a listing agent, what is my role during the appraiser's visit?

- ▶ Provide access to the property
- ▶ If desired, provide comparable sales used to develop the list price (or a CMA)
- ▶ Provide a detailed list of any recent improvements, renovations, or remodeling
- ▶ Insure the appraiser sees all of the home

As the buyer's agent, can I go to the appraisal appointment?

What is my role during the appraiser's appointment?

What about the owner/seller/buyer?

THE APPRAISAL REPORT

Why does the appraiser report the listing history of the subject (expired, withdrawn listings, etc)?

Contract/Client	Address
Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? ☐ Yes ☐ No	
Report data source(s) used, offering price(s), and date(s).	

Why does the appraiser need a copy of the sales contract?

CONTRACT	I ☐ did ☐ did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.			
	Contract Price \$	Date of Contract	Is the property seller the owner of public record? ☐ Yes ☐ No	Data Source(s)
	Is there any financial assistance (loan charges, sale concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower?			☐ Yes ☐ No
	If Yes, report the total dollar amount and describe the items to be paid.			

Who determines the condition of the property?

UNIFORM APPRAISAL DATASET (UAD) DEFINITIONS ADDENDUM

(Source: Fannie Mae UAD Appendix D: UAD Field-Specific Standardization Requirements)

Condition Ratings and Definitions

C1

The improvements have been recently constructed and have not been previously occupied. The entire structure and all components are new and the dwelling features no physical depreciation.

Note: Newly constructed improvements that feature recycled or previously used materials and/or components can be considered new dwellings provided that the dwelling is placed on a 100 percent new foundation and the recycled materials and the recycled components have been rehabilitated/remanufactured into like-new condition. Improvements that have not been previously occupied are not considered "new" if they have any significant physical depreciation (that is, newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).

C2

The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category are either almost new or have been recently completely renovated and are similar in condition to new construction.

Note: The improvements represent a relatively new property that is well maintained with no deferred maintenance and little or no physical depreciation, or an older property that has been recently completely renovated.

C3

The improvements are well maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well maintained.

Note: The improvement is in its first-cycle of replacing short-lived building components (appliances, floor coverings, HVAC, etc.) and is being well maintained. Its estimated effective age is less than its actual age. It also may reflect a property in which the majority of short-lived building components have been replaced but not to the level of a complete renovation.

C4

The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate.

Note: The estimated effective age may be close to or equal to its actual age. It reflects a property in which some of the short-lived building components have been replaced, and some short-lived building components are at or near the end of their physical life expectancy; however, they still function adequately. Most minor repairs have been addressed on an ongoing basis resulting in an adequately maintained property.

C5

The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability is somewhat diminished due to condition, but the dwelling remains useable and functional as a residence.

Note: Some significant repairs are needed to the improvements due to the lack of adequate maintenance. It reflects a property in which many of its short-lived building components are at the end of or have exceeded their physical life expectancy but remain functional.

C6

The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components.

Note: Substantial repairs are needed to the improvements due to the lack of adequate maintenance or property damage. It reflects a property with conditions severe enough to affect the safety, soundness, or structural integrity of the improvements.

What is effective age?

How does effective age affect value?

Actual age is also called the Chronological Age. The Effective Age is the estimate of the age of a structure based on its utility and physical wear and tear. The effective age is the difference between the Economic Life of the structure and the Remaining Economic Life of the structure.

Economic life is the expected period of time during which an asset is useful to the average owner.

The remaining economic life is the estimated number of years that an improvement will continue to contribute to the property value.

The remaining economic life of an improvement is the total economic life minus its effective age

EXAMPLE:

Home is 40 years old.

Economic life of a typical home, 60 years

Newly and completed renovated, not yet occupied - effective age 8 years old

Remaining economic life of the home, 52 years ($60 - 8 = 52$)

THREE APPROACHES TO VALUE:

- ▶ Sales Comparison Approach
- ▶ Income Approach
- ▶ Cost Approach

How does an appraiser determine adjustments?

“Isn’t there just a standard list of adjustments?”

NO!!!!

An appraiser uses Matched Pairs analysis to determine adjustments.

Matched Pairs Analysis:

Two homes similar to each other in every way except the feature to be adjusted, sold within 12 months of each other, within the same neighborhood of the subject property (or a competing neighborhood)

Example:

123 Elm Street, 2450 sqft, 3BR/2BA, 2-car garage, renovated within the past two years, inground pool, sold 9/15/2018 for \$275,000

123 Pine Street, 2425 sqft, 3BR/2BA, 2-car garage, renovated within the past two years, sold 5/15/2018 for \$250,000.

In this example, a typical buyer will pay \$25,000 more for a home with an inground pool *in this neighborhood.*

What is the cost approach to value?

The value of the property is the cost of the land plus the cost of the improvements new, less depreciation based on effective age.

?????

For homes 10 or more years old, the cost approach to value is not a good indicator of value because actual depreciation is very difficult to determine.

Site value

+ cost of improvements new
- Depreciated cost of the improvements
= Value based on the cost approach

One method of determining depreciation:

Effective age: 10 years

Total economic life: 60 years

$10/60 = 16.6\%$ depreciation

What is site value?

The underlying value of the site with no improvements

How does an appraiser determine site value?

- ▶ Recent sales of vacant sites in the neighborhood
- ▶ Extraction method - separating the depreciated cost of the improvements from the sales price
- ▶ Allocation method - ratio between the site value and the total value (historical data)

What is the income approach to value?

An appraiser determines the GRM (Gross Rent Multiplier) for the area and applies the GRM to the current or market rent for the subject to obtain a value based on the income approach

What is a GRM, Gross Rent Multiplier?

Selling price / gross rents = GRM

GRM x gross rents = market value based on GRM

Reconciliation - “Bringing it all together”

What is the best indicator of value?

Typically, for single-family homes, the sales comparison approach is the best indicator of value because it reflects the actions of buyers and sellers in the market

The income approach to value is helpful in determining a value for income producing properties when there is sufficient data to determine and apply a GRM

The cost approach to value is not a good indicator of value for homes more than 10 years old because actual depreciation is difficult to determine. However, the cost approach is used for newly constructed homes.

The appraiser determines which approach to value is the best indicator of value for the subject property.

The appraiser explains all adjustments, weighs the comparable sales and listings, considers all data analyzed, and reconciles all approaches to value used to determine an opinion of market value.

The opinion of value is:

“As is”

“As repaired”

“Subject to completion”

“Subject to further inspections and the results of those inspections”

The 1004MC (Market Conditions) form and how it can be useful with your presentations and contract negotiations

NOTE: Fannie Mae retired the 1004MC August 2018.

Questions??

Thank you for attending!