

SLIDE 1 – Preparing a Comparative Market Analysis (CMA) – Cover Page

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Valuation Activity

Comparative Market Analysis (CMA): “A method of determining the value of real property used by appraisers and real estate brokers that compares actual recent sales of similar local properties to arrive at an indicated value. Small differences in the properties are assigned positive or negative dollar values to allow for direct comparison.”

Competitive Market Analysis (CMA): “A listing tool that a sales agent prepares in order to show a seller what the home is likely to sell for , and the CMA helps the agent decide whether or not to accept the listing.”

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Definitions

Comparative Analysis: This is the process by which a value indication is derived by analyzing comparable sales. The comparison may be done as a quantitative analysis or a qualitative analysis.

Comparable Listing: The listing for sale or for lease of a similar property to the subject used for comparison in the valuation/pricing process.

Comparable Sale: The sale of a similar property to the subject used for comparison in the valuation/pricing process. All sales are not considered comparable sales.

A **qualitative analysis** is an analysis that describes adjustments and the direction of adjustments; however, it does not provide numerical adjustment for various features. This is often used to describe the reasonableness of the adjustments, and may be used in conjunction with a quantitative analysis.

A **quantitative analysis** is an analysis that utilizes numerical adjustments to the sales prices of comparable properties relative to the subject property.

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Sources of Comparable Data and Data Verification

In many cases public records are available for viewing to the general public, including both sales and mortgage documents.

Many places now offer on-line access to the actual recorded documents. Additionally, there are other services available that provide a summary of the recorded information. Pertinent data includes vendor (seller), vendee (buyer), sales price, legal description, date of sale and recordation information. The size of the improvements, age of the improvements and municipal addresses are not typically included in the recorded document.

Note that the sales price is not legally required to reflect market value. It is simply the price noted in the legal document, and may not reflect the entire consideration paid for the real estate, or may reflect an amount above that paid for the real estate. The sales price should be verified with the seller, buyer or agents involved in the transaction, particularly when the amount is inconsistent with other market data.

MLS may also be a good resource for comparable data and information.

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Verification of the size of the improvements can be obtained from the seller, buyer, real estate agent, or other knowledgeable party; however, actual measurement is the best source. Permit information is a source; however, it must be verified.

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In appraisal theory, the “Areas of Comparability” are also called the “Elements of Comparison”. In this analysis, the Realtor/appraiser develops the degree of similarity or differences of the comparable property relative to the subject property utilizing quantitative and/or qualitative methods.

1. Property Rights
2. Financing Terms
3. Conditions of Sale
4. Concessions
5. Market Condition/Date of Sale
6. Locational and Physical Features

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Sources of Comparable Data and Data Verification—Property rights

An adjustment for comparable property rights relative to the subject. Property rights include property interests and may reflect partial interest.

Sales Price of Comparable 2 - Sales Price of Comparable 1 = Property Rights Adjustment to Comparable 1 (+ *relative to subject*)

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Sources of Comparable Data and Data Verification – Financing

One must understand that a closed sale with a recorded sales price is “potentially” a comparable sale, contingent upon verification of comparability, including verification of sales price paid for the real estate.

- FHA
- VA
- Conventional
- Seller
- Cash
- USDA – Rural Housing
- Other – must be detailed

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Proper indication of the “sale type” is necessary in order to determine if the price paid reflects market value, or another value caused by a distress sale situation. A distress sale is a sale involving a seller acting under undue duress.

- REO sale
- Short sale
- Court ordered sale
- Estate sale
- Relocation sale
- Non-arm’s length sale
- Arm’s length sale
- Listing

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Sources of Comparable Data and Data Verification–Conditions of Sale

A vendor/vendee with the same last name should always involve additional research to verify the relationship between the parties to determine if the recorded price reflects market value. A sale between related parties is considered a “Non-arm’s length sale”.

A listing provides information, and comparable listings should always be considered; however, a listing is not a closed recorded sale and should not be considered as such. All else being equal, a listing would reflect the top potential price for the subject property.

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A financial payment, special benefit, or non-realty item included in the sale contract or rental agreement as an incentive to the sale or lease. Concessions occur when the seller or lessor agrees to pay an inducement or to give some special credit or property to a buyer or lessee, who agrees to pay a higher price than the seller or lessor would normally pay in return for the inducement or credit. Concessions usually result in artificially inflated sale prices or lease rates. Often concessions allow financing that would otherwise not be possible. Concessions may be disclosed as part of the sale or lease, but often they are not.”

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Market Condition/Date of Sale

Market condition adjustment is sometimes called the “time adjustment”. It is an adjustment applied to a comparable sale to bring the sale “current”, or into the same market conditions as the effective date of valuation or pricing of the subject property.

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Locational and Physical Features

Locational and physical features are adjusted once the sale is considered to reflect a price in the current market. In the *Identification of the Subject* section, there were a variety of categories discussed.

- Location characteristics
- Site specific characteristics
- Use
- Improvement details

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Value/Price Conclusion – Test of Comparability

After adjustment of each comparable for variances relative to the subject, the standard deviation, or range of adjusted values should be much narrower from that indicated by the sales price range prior to adjustment.

- Line item adjustment
- Net adjustment
- Gross adjustment

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Value/Price Conclusion – Line Item Adjustment

A line item adjustment is the degree of adjustment of the comparable for a single element of comparison or category. This is related as a percentage adjustment.

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The net adjustment is calculated by summing the individual positive and negative adjustments to derive the net impact of adjustments. The percentage is computed by dividing the summation by the price prior to adjustment.

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Value/Price Conclusion – Gross Adjustment

The gross adjustment is a summation of all adjustments, ignoring the direction of the adjustment. The percentage is computed by dividing the summation by the price prior to adjustment.

Sales Price of Comparable	\$ 700,000	Line Item Percentage
Site Adjustment	– \$170,000	– 24.29%
Quality of Construction	+ \$170,000	+ 24.29%
Living Area Adjustment	+ 15,000	+ 2.14%
Porch Adjustment	– \$5,000	– 0.71%
Net Adjustment	+ \$10,000	+ 1.43%
Gross Adjustment	\$360,000	51.43%
Adjusted Sales Price of Comparable	\$ 710,000	

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There are guidelines for measuring comparability; however, these are not rules. Limited sales data, or unique quality, condition, location, etc., may result in large adjustments to even the best chosen comparable sales.

Adjustment Category	Recommended User Range
Line Item Adjustment	<10%
Net Adjustment	<15%
Gross Adjustment	<25%

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Computer Generated / AVM

There are many online resources for market analysis and quite a few of these tools are available to the public. While these resources may be an attractive shortcut, they are not as reliable as a CMA prepared by a sales associate.

Computer models do not take into account local market nuances, zoning changes, market fluctuations, etc. like a trained professional would.

Be aware, that clients may come to you with preconceived ideas about the value of their property or their prospective new home.

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Summary

SUMMARY

Real estate value	Present monetary worth of benefits arising from ownership, including: income, appreciation, use, tax benefits
Foundations of real estate value	Anticipation, substitution, contribution, change, highest and best use, conformity, supply, demand, progression, regression, assemblage, subdivision, utility, transferability
Types of value	Market, reproduction, replacement, salvage, plottage, assessed, condemned, depreciated, reversionary, appraised, rental, leasehold, insured, book, mortgage

Section 16: Real Estate Appraisal



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Summary

SUMMARY

Appraising market value	
Market value	Price willing buyer and seller would agree on given: cash transaction, exposure, information, no pressure, arm's length, marketable title, no hidden influences
The appraisal and its uses	A professional's opinion of value, supported by data, regulated, following professional standards; used in real estate decision-making
Steps in the appraisal process	Define purpose, collect and analyze data, identify highest and best use, estimate land value, apply basic appraisal approaches, reconcile, compile report

Section 16: Real Estate Appraisal



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Summary

SUMMARY

Sales comparisons approach	
	Most commonly used; relies on principles of substitution and contribution
Steps in the approach	Compare sale prices, adjust comparables to account for differences with subject
Identifying comparables	Must be physically similar, in subject's vicinity, recently sold in arm's length sale
Adjusting comparables	Deduct from comp if better than subject; add to comp if worse than subject
Weighting adjustments	Best indicator has fewest and smallest adjustments, least net adjustment from the sale

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Summary

SUMMARY

Broker's comparative market analysis	abridged sales comparison approach by brokers and agents to find a price range
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Summary

SUMMARY

Cost approach	Most often used for recently built properties and special-purpose buildings
Types of cost appraised	Reproduction: precise duplicate; replacement: functional equivalent
Depreciation	Loss of value from deterioration, or functional or economic obsolescence
Steps in the approach	Land value plus depreciated reproduction or replacement cost of improvements

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Summary

SUMMARY

Income approach	Used for income properties and in a rental market with available rental data
Steps in the approach	Value = NOI divided by the capitalization rate
GRM and GIM approach	GRM: price divided by monthly rent; value: GRM times monthly rent; GIM: price divided by gross annual income; value: GIM times annual income

Section 16: Real Estate Appraisal



Summary

SUMMARY	
Regulation of appraisal	
Licensure	State-licensed or -certified per FIRREA/USPAP for federally-related appraisals
Professional standards	USPAP establishes appraisal standards, guidelines and provisions
Professional associations and designations	Founders of Appraisal Foundation offer education and professional designations

