



1 Hour Practical Aspects of
Establishing Home Values
VREB Approval #: 58081

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Instructions for the 1 Hour Practical Aspects of Establishing Home Values Correspondence Course

You have chosen to take the 1 hour Practical Aspects of Establishing Home Values course by correspondence. You may either read it online or print it. After you complete the course, take the quiz. A blank answer sheet is provided for you to record your answers. The Virginia Real Estate Board requires a passing grade of 75% or higher.

Complete the Certification Sheet. **Have the Student Declaration notarized.** The Virginia Real Estate Board has given you the option of either sending the notarized affidavit to us or keeping it with your records.

Mail, fax, or scan and email the completed answer sheet, certification sheet and Student Declaration to us. Our mailing address is Box 494, Oakton, Virginia 22124. Our fax number is 703-758-0044. Our email address is info@PotomacRESchool.com.

Your information will be held in the strictest of confidence.

You will not be charged unless you pass the exam. If you do not pass, you will be notified immediately.

Once we have received the required paperwork from you and you have been charged, we will report your hours to DPOR and email your certificate to you. The Real Estate Board requires that we report your hours to DPOR within 5 days of receipt of your paperwork. If you need reporting in less than 5 days, please let us know.

If you have any questions, please call or email us. Our phone number is 703-758-0034. For questions of a general nature, you can call or email us at info@PotomacRESchool.com. If you have questions about the content of the course, you can call or email me at patti@PotomacRESchool.com.

Thank you.

Patti Chapell

Patti Chapell
Director

Linking Learning To Success®

Practical Aspects of Establishing Home Values

Part 1 - Introduction

- Introduction
 - Location and square footage are the most important factors when determining value
 - This course will not attach specific values to any amenities/improvements since values differ according to price range.
 - This course will not teach how to complete a CMA, but, instead, it will discuss some principles of value

Part 2 - Track Homes

- Track Homes
 - Ideally, the agent should look for homes that are the same model as the subject property.
 - 3 "availables"
 - 3 "under contracts"
 - 3 "solds" within the past 3 months
 - "Expireds" or "Withdrawns"
 - If the same model cannot be found, the agent can use other models but adjust for amenities and square footage. Over time, different models tend to adjust toward each other, and differences in price start to diminish.
 - All four statuses help in pricing a home.
 - In a flat market, the subject home can be priced at or slightly above the "solds."
 - In a declining market, the subject home should be priced below the "solds." Otherwise, the seller is constantly "chasing the market down," having to reduce the price multiple times.
 - In a rising market, the seller can price his home above the comparables.
 - In all cases, "availables" contribute some very important information. They show what the competition is and they reveal a snapshot of today's market.
 - For all comparables, the listing agent needs to look at "Days on the Market."
 - The agent needs to be certain to look at the number of days that the home has been on the market, not the number of days that the home has been on the market with a particular MLS number.
 - A comparable may show up as having had a particular MLS number for 2 days but the property may have been on the market 300 days with multiple brokers.
 - Cost vs. Value
 - When analyzing the data, the agent should not be influenced by the sellers' insistence that they should get back 100% of their cost for all options they purchased when the house was new.
 - If they can get 50% back, they are doing well. For example, if a prime lot carried a \$25,000 premium when the home was new, the sellers will probably now get closer to \$12,000 or \$13,000 than the \$25,000 they originally paid.

- In some cases, an “upgrade” or “improvement” might not add value to the home but may cause it to sell faster.
 - Example: Sellers decide to add a deck to their townhouse because their competition has decks. This may not add to the resulting sales price but will certainly help sell the home
- In some cases, an “improvement” may devalue the home, as is frequently the case with pools. Many families do not like to purchase homes with pools because of safety and liability factors.
- Amenities
 - The agent should compare amenities that could differ from one house to the next. Then, adjustments can be made.
 - Example: The subject property is an end unit townhouse with a brick front, finished walk-out basement, 3.5 baths, 4 levels (loft) and one car garage. All of the comparables have finished walk-out basements and one car garages. But some have 2.5 baths, are 3 levels and have vinyl siding on the front. You will adjust upward for the extra bath, the extra level and the brick front and disregard the finished walk-out basement and one car garage.
- Location
 - The location needs to be assessed. An adjustment for location may be necessary.
 - Two identical homes will differ in value if, for example, one backs to parkland and the other backs to a shopping center.
 - Level lots are worth more than sloped lots.
 - Homes on a main road are worth less than homes on a quiet road.
 - Homes on pipe stems are worth less than homes not on pipe stems.
 - Homes on cul-de-sacs are worth more than homes not on cul-de-sacs.
- Interior vs. End Units (townhouses)
 - End unit townhouses are worth more than interior townhouses.
- How much should the subject property be adjusted upward or downward for different amenities?
 - That’s a difficult question because there is no one answer that can be applied universally.
 - The amount by which the subject property is adjusted will be dependent upon the price range of the subdivision.
 - For example, an end unit townhouse in the \$300,000 price range will not yield as large an adjustment as an end unit townhouse in the \$800,000 range. The agent will have to look at other townhouses in the price range of the subject property to determine from the sales how much to adjust the price.
- Square Footage
 - Let’s say that the subject property is a single family home with 4 bedrooms, and there is a comparable in the MLS, which is the same model, but with 5 bedrooms.
 - It cannot be automatically assumed that the house with 5 bedrooms is larger and therefore worth more. The owners may have turned a family room or living room into the 5th bedroom and now the house has no family room or living room. In a case such as this, the agent should look at the interior square footage of the comps. In the example above, both homes probably have the same interior square footage, which means that the comparable is not necessarily worth more. In fact, it may be worth less because potential buyers might prefer the family or living room to that 5th bedroom.
- Updating/Remodeling
 - All updating of the subject property should be noted.

- Putting on a new roof is not updating; it's maintaining the home or "bringing it up to standard."
- Updating kitchens and bathrooms will give sellers the largest rate of return on their investment.
- However, if the owners updated well above what the subdivision supports, their rate of return will be lower. If their home is the best in the neighborhood, they will suffer from the principle of regression; the value of homes around theirs will pull the value of their home down.
- The following is adapted from Remodeling Magazine by Realtor Magazine in 2007:
 - Home rehabbers who are considering a move in the not-too-distant future should focus mostly on exterior upgrades. That's the message from REALTORS® who participated in Remodeling magazine's 20th annual "Cost vs. Value Report", done in cooperation with REALTOR® Magazine.
 - REALTORS® in 65 markets were given construction specs and costs on 29 upscale and midrange projects and asked to estimate the percentage return at resale.
 - Of projects that saw national cost recovery rates of more than 80 percent in 2007, only one — a minor kitchen remodel, with 83 percent of cost recovered — was a strictly interior job. The others were an upscale siding replacement using fiber cement materials (88.1 percent), a wood deck addition (85.4 percent), midrange vinyl siding replacement (83.2 percent), and upscale vinyl and midrange wood window replacements (81 percent and 81.2 percent, respectively).
 - On most projects, the value of remodeling trended down in 2007 compared with 2006. No project exceeded an 88 percent return. The likely culprits for the year-to-year drop: rising remodeling costs and slowing home appreciation brought on by the lackluster housing market in many areas.
 - Nationally, projects at the bottom of the cost-recovery ladder included home office re-models (57 percent), installing a back-up power generator (58 percent) and adding a mid-range sunroom (59.1 percent).
 - *Reprinted from REALTOR® Magazine Online (<http://www.realtor.org/realtormag>) with permission of the NATIONAL ASSOCIATION OF REALTORS®, Copyright 2008. All rights reserved.*
- And of course, property condition is always a factor and will need to be adjusted accordingly.

Part 3 - Custom Homes

- Custom Homes
 - Pricing custom homes is more challenging than pricing tract homes.
 - This is where the agent will be helped immeasurably if he knows the market. There may not be another home in any listing status that is like the subject home. There may not be another home in the subdivision that has sold in years. What can the agent do to determine value? The agent can search by
 - Zip code or mailing address

- The agent should look at the lot size and try to compare homes with similar size lots.
- Age
 - Newer is worth more than older
- Style
 - Colonials are worth more than other styles with split foyers worth the least
- Square footage
- Updates
- Lot location
- Condition
- Tax assessment
 - Care must be taken when comparing tax assessments. In many cases, assessments do not take into account updating.
 - In newer homes, tax assessment analyses will be more accurate than in older homes.
- Utilities
 - Gas heat will raise the value of a house over a heat pump or oil heat.
 - Public water will raise the value of a house over a well.
- The agent should preview as many “availables” as is possible in the same or similar price ranges.
 - When choosing comparables, the agent should think about which other homes a potential buyer, who looks at this subject property, might go to.
 - These homes are the competition.
 - Looking at these homes can help price the subject property.
- Lot size won't matter too much unless there is a huge difference, or the difference allows the owner to use the lot differently or subdivide the lot.
 - For example, there probably would not be a large difference in price between a .75 acre and 1 acre lot unless perhaps the .75 acre home backed to parkland and the one acre home did not. In this case, the .75 acre lot may bring a higher price than the one acre lot. If the subject home is on two acres and can be used for horses, it shouldn't be compared to a home on a smaller lot that cannot be used for horses.

Part 4 - An Example

- Subject Home
 - Custom built home in Lakeside Subdivision in Pleasantville, Virginia 11110
 - 37 years old
 - 3 level split
 - No sales in 2 years
 - 4 bedrooms and 3.5 baths
 - On septic, well and oil heat
 - 1+ wooded acre
 - Interior Square Footage is 1800 square feet.
 - Walk-out lower level
 - Kitchen completely remodeled
 - Bathrooms completely remodeled
 - Home is in good condition
- The Search for Comparables
 - There are no sales in the past two years in the Lakeside Subdivision.

- Pleasantville mailing address is next searched for split level homes over a certain age.
 - Most likely, since split levels are no longer built, any split level homes found will be older.
 - The search reveals three 3-level splits that have sold in Pleasantville in the last six months.
- Let's work with just one.
 - This comparable is 22 years old and on an acre.
 - It is closer to the city than the subject home.
 - It has gas heat, public water and septic.
 - It is slightly larger than the subject home with 2100 square feet.
 - It has 4 bedrooms and 2.5 baths.
 - It has an in-ground basement.
 - It has not been updated.
 - Condition is good.
- When making adjustments to the subject
 - Subtract value because subject is older.
 - Add value for the extra bathroom.
 - Subtract for well water and oil heat.
 - Add to the subject for the walk-out as opposed to in-ground basement.
 - Add to the subject for the new kitchen and bathrooms.
 - Subtract value from your subject property for smaller home (less square footage).
 - Again, the agent will have to use his judgment when calculating the value of each of the adjustments.

Aspects of Valuation Final Quiz

1. Which of the following will most affect value?
 - a. location
 - b. walk-out basement
 - c. hardwood floors
 - d. Jacuzzi bathtub
2. Which of the following will most affect value?
 - a. color of carpet
 - b. square footage
 - c. front door
 - d. brick front
3. When pricing a custom home
 - a. The age of the home should be considered.
 - b. The style of the home should be considered.
 - c. The square footage of the home should be considered.
 - d. All of the above
4. Why should "availables" be previewed when attempting to price a home?
 - a. The "availables" are the subject home's competition.
 - b. "Availables" should not be previewed. Everyone knows that homes should be priced only according to the "solds."
 - c. Neither a nor b
5. Why might a 5 bedroom home be worth the same as a 4 bedroom home of the same model?

- a. It wouldn't be.
 - b. No one wants a 5th bedroom
 - c. The 5th bedroom might be a converted family room.
 - d. None of the above.
6. Do all "improvements" add to the value of a home?
- a. Yes. Of course.
 - b. No
 - c. Neither a nor b
7. Will a seller recoup his cost for all "improvements"?
- a. Yes. He can expect to get more due to the improvements appreciating.
 - b. Usually not.
 - c. Yes. After all, these are called "improvements."
8. When it comes time to sell, is it good for a seller to have the best house in the neighborhood?
- a. Yes. He can show it off and make a bundle.
 - b. No. The principle of regression will bring the value of his house down.
 - c. Yes. He will sell his house much faster than the others in the neighborhood.
 - d. None of the above
9. What types of problems can occur if the subject property is new construction and the surrounding homes are 60 years old?
- a. Most new homes are colonials and many 60 year old homes are of different styles.
 - b. New homes have features that don't compare to older homes like higher ceilings, floor plans with family rooms on the main level, etc.
 - c. Both a and b
 - d. Neither a nor b
10. Why is it difficult to use tax assessments in calculating values for older homes?
- a. Tax assessments often do not take into account updating.
 - b. Tax assessments do not have anything to do with value.
 - c. It is not difficult to use tax assessments in calculating values for older homes.
 - d. None of the above

Name_____Date_____

PRACTICAL ASPECTS OF ESTABLISHING HOME VALUES FINAL QUIZ

Please circle the correct answer for each question.

1. A B C D
2. A B C D
3. A B C D
4. A B C D
5. A B C D
6. A B C D
7. A B C D
8. A B C D
9. A B C D
10. A B C D

Potomac Real Estate School Certification Sheet for Correspondence Course

Please fax to (703) 758-0044, scan and email to info@PotomacRESchool.com, or mail to Potomac Real Estate School, Box 494, Oakton, Virginia 22124

Print Name _____ **Course: 1 Hour Establishing**
 Billing Address _____ **Home Values CE**
 _____ (VREB Approval #58081)

 RE License # _____ (10 digits)
 Expires _____
 Phone # _____
 Email _____
 Company Affiliation _____

Payment by Check

_____ I enclose a check payable to Potomac Real Estate School LLC in the amount of \$15.00

OR

Payment by Credit Card

_____ Please charge \$15.00 to my ___Visa___Master Card___American Express___Discover

OR

Card # _____ Expiration Date _____

Security Code _____ Signature _____

Did you find the material well organized?	Yes	No
Was the material well written?	Yes	No
Was the course material relevant?	Yes	No

Suggestions _____

How did you find us? Please circle

Internet Postcard Referred by _____ Email
 Personal Note/Letter Ad VREB NVAR L&F
 Other



Student Declaration: I hereby certify that I completed this continuing education course (1 Hour Practical Aspects of Establishing Home Values) on my own without assistance.

Signed _____

Date _____

Name (Print) _____

Notary Public Declaration: Taken, subscribed, and sworn before me this ____ day of _____, 20____
In the City/County/Town of _____
In the State/Commonwealth of _____
My commission expires ____/____/_____

Notary Public _____

Notary Signature Required

But Seal NOT Required