

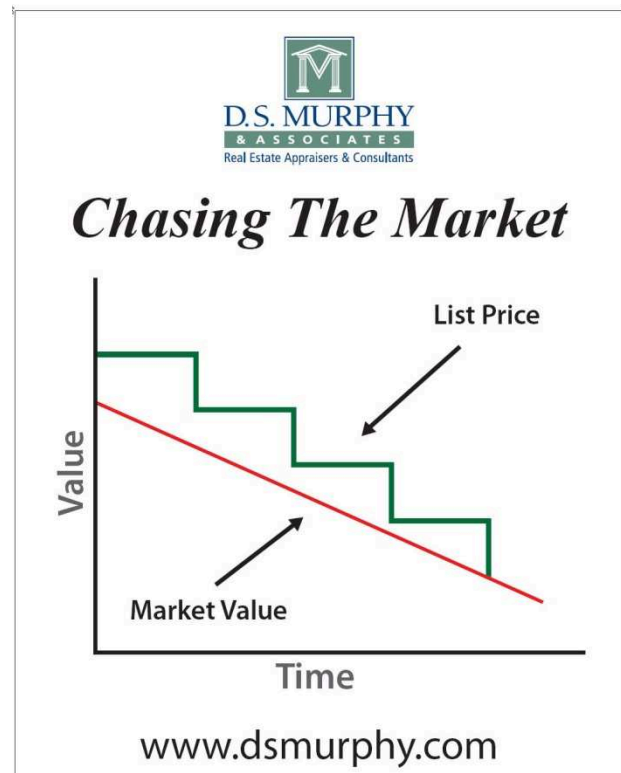


Chasing the market

By D. Scott Murphy, SRA Fall 2008

We are in a very unique real estate market. One unlike any other that I have seen in my 25 years as an appraiser. There have been many ups and downs – that is the normal course of the real estate market. I explain to people that the value of your home goes up and down, much like the value of a stock. Over time there is generally an overall positive appreciation but the value at any one given time could be less than a prior period. What makes this market cycle so unique are the complexities which have come about in the secondary market over the past decade and now the resulting lack of mortgage products. Six months ago almost anyone could qualify for a loan under some program. This allowed for a broad pool of buyers. Then came the shake-ups in the subprime market which then lead to tightening of all loan products. Lenders quickly moved to remove dozens of their loan products, leaving just the most basic available. Things have settled back out a bit, but many that would have qualified for a loan six months ago cannot today. This lack of buyers (demand) has seriously impacted the real estate market. New home construction appears to be suffering the most and builders are slashing prices to try and move inventory. Townhome builders seem to have been hit the hardest. Many have completely ceased construction, chaining off streets and laying off workers.

All of this makes it more important than ever to price your home correctly if you are planning to sell. It is critical to realize that in a normal appreciating market, (where values are increasing), it is okay to list your home slightly above the current appraised value. Remember, the appraisal is a lagging indicator. The appraiser makes every attempt to represent the true market value of the subject property at the time of the inspection but by its very nature, the appraisal uses sales which have sold in the past. If the home is priced too high the market will eventually catch up and the house will sell. In today's downturned market (I hesitate to truly call it a declining market, I would prefer it be called a correction), if the property is not priced *at or slightly below* the appraised value, you will end up *chasing the market*.



Let's take for example a home which has a current market value of \$300,000. Traditional wisdom would be to list it at something like \$329,000 or \$339,000 – leaving room for negotiation and price appreciation. Unfortunately, this mentality is so engrained in the minds of sellers that they cannot conceive the thought of listing the home below its current appraised value. It is critical to get it priced right at the beginning. Based on all the current market data and historical price trends, there is no indication that the market will stop adjusting any time soon. So the seller prices the home at \$329,900; it sits on the market for 60 days – no buyers. He then agrees to a price reduction to \$319,900. The problem is that the current market value of his home has now decreased to \$290,000. Another 60 days goes by and he gets a little more aggressive and reduces it to \$304,900; unfortunately, the market value has now dropped to \$285,000. This goes on for some time and the house finally sells for \$275,000. Had it been priced at \$299,900 there is a very good chance he would have received an offer in the \$290,000's.

If you are considering selling your home, please consider having a "listing" appraisal completed by a highly skilled real estate appraiser. Not all appraisers are created equal. It is critical to have your home appraised by an appraiser who is seasoned and who truly understands your local market. They must have access to all the available databases and be competent handling your specific property type. They must consider all actively listed homes as well as any under contract and sold. Emphasis must be placed on the most recent sales and reconciled against current listings.

Why have a "listing" appraisal?

- Obtain an unbiased, informed opinion of the current value of your home

- Identify, prior to contract, any zoning or legal issues which might arise
- Identify any repair issues which might be required by the appraiser (the seller typically loses when repairs are identified either by the appraiser or the inspector)
- The appraiser can offer suggestions on minor repairs or improvements which might yield a significant return
- Put yourself in a stronger negotiating position. Negotiate with power & conviction, knowing the true value of your home
- Alleviate the restless time between contract and closing worrying if the house will appraise
- Close much faster! By having the appraisal completed in advance and working with a lender, the buyer simply needs to supply the qualifying docs and the transaction can close in days rather than weeks.
- Who pays for the appraisal in a typical mortgage transaction? Buyer??? Not all the time, quite often the seller will pay some of all of the closing costs. Why not spend that money up front and reap the benefit for yourself (there is no guarantee that the appraisal will be able to be used by the buyer).

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