

APPRAISAL TASK FORCE UPDATE

Fine Tuning Your CMA's

A question I am asked often is “How can an appraisal turn out so far off from my CMA?” In theory an appraisal and a CMA done within the same time period should yield very similar results. The most probable reasons for the numbers being significantly different are the level of detail and comp selection.

An appraiser will choose the most similar comps available in the market and adjust for approximately 22 different property features. Those features include everything from the date of sale and financing, to square footage, room count, basements, car storage, porches and built in appliances among others. An agent performing a CMA should follow a similar process. The most similar comps should be chosen from the market and appropriate adjustments must be made to the comps.

The CMA Wizard in the MLS will do a very good job of preparing an accurate CMA if the operator does their job. I'm sure everyone has heard the phrase “Garbage in, Garbage out” when dealing with computer analysis. This phrase is very true when preparing a CMA, if you don't put quality information in the front end, you will get useless garbage out the back end.

While the CMA Wizard is a very good tool, it is somewhat incompatible with the typical appraisal due to the design and reporting format of the MLS database. The Wizard does have enough flexibility in the “Adjustments” section to overcome the incompatibility and allow you to get credible results.

The first and most important step to obtaining credible results is in your comp selection. If your subject property is a 1500 square foot ranch on a crawl space with no garage on a ½ acre lot, your comps should have similar features. It will significantly complicate your analysis if you include properties as comps with dissimilar features. It would be a major mistake to include comps with large acreage lots, much smaller or larger homes, or homes in significantly higher priced subdivisions. Using multi level homes would not be the ideal situation, but in a slow market it may be necessary to have enough data.

Once you have chosen your comps and you start your data analysis in the Wizard, you must modify your entries in the “Adjustments” section. As you know the MLS system combines all finished living area into one number. If your subject or any of the comps has finished basement area, using the total finished living area number to do your analysis will result in inaccurate results. You should only adjust for above grade square footage in the square footage section of the Wizard. Finished basement space does add value, but typically it adds about one half the value of above grade finished space. The value of basement area will vary depending on the neighborhood and the quality of the finish. It will be the rare exception where finished basement area will add the same value as above grade finished area. The Wizard also allows you to make an adjustment on the sale price per square foot. Do not use this adjustment at all under any circumstances.

The Wizard does not allow you to adjust for fireplaces, porches, basements or premium/inferior view issues in the pre programmed fields. The Wizard does have eight extra fields which you can add as needed. Use those fields for basement, finished basement, fireplaces, porches and premium/inferior view adjustments. I think everyone would agree a 400 square foot screened porch or 600 square feet of nicely finished basement space would add value to a property. Items of this significance must be dealt with individually rather than by average price per square foot adjustments.

Careful comp selection and proper adjustments in the Wizard should provide you with estimated value indications very similar to mortgage appraisals.