

How To Discover The True Value Of **Your Home**



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1 | Introduction

How do Realtors and appraisers decide how much a house is worth?

- While every REALTOR approaches a home's valuation slightly differently, here's the lowdown on the process used and the **essential factors** that are taken into consideration.
- **If you're a Seller:** it's important to know how your agent is appraising your home and how Buyers will decide what your house is worth.
- **If you're a Buyer:** it's important to know how the Seller has arrived at their asking price. If you're in a bidding war, it's even more important to understand how market value is determined so that you can put your **best foot forward**, without paying too much.



2 | The CMA

The Comparative Market Analysis

- Choose the best comparable sales.
- The first step in deciding how much a home is worth is choosing nearby **sold properties to compare the house to**. While Sellers may be tempted to cherry-pick the comparable sales that support the highest price (and Buyers are tempted to cherry-pick the comparables that support the lowest price), the best comparables for a home are:
 - Nearest in location (same street or nearby similar streets)
 - Most recently sold (Within the last 3 months)
 - Closest in size, style and condition

3 | The Adjustments

- Make adjustments to **account for the differences**.
- It's rare that two houses are identical, so the next step in determining a home's value is making adjustments – adding and subtracting \$\$ to account for how the homes differ. I always use a **standard set of values** based on the same \$ value an appraiser would use, this keeps things consistent and **removes opinion**.

When comparing houses and making adjustments for a CMA, there are many factors to consider, including:

- **Style of house** – detached houses are the most valuable, followed by semi-detached and row houses.

- **Number or bedrooms** – Most of the time, more bedrooms will mean **more value**
- **Number of bathrooms** – Same goes for bathrooms
- **Location**, including positive and negative influences – a home backing onto a cemetery won't sell for as much as the neighbour across the street that backs onto a ravine
- **Lot size** – Depending on the community, land value can be the most significant \$ adjustment in the process.
- **Square footage/size** – Again, **bigger is often always better**
- **Layout** – Open layouts are more valuable these days than houses with a lot of closed off rooms. The flow of the space is important too.
- **Parking** – How much value does a garage add? Driveway vs laneway parking?
- **Outdoor space** – How do the outdoor spaces compare? It's not just size that matters here – style, design, prior maintenance, views, the neighbours – **a lot of factors are considered.**
- **Condition of the home** – Has the house been well maintained? Are the floors and carpets in good condition? Are mechanicals in good condition – electrical, plumbing, furnace, A/C, roof?
- **Finishes** – Comparing finishes can become very subjective. How do the finishes compare in style, quality and recency of renovation? It's important to remove an opinion of what buyers might or might not like.
- **Basement** – Finished basement vs unfinished basement vs part finished basement.
- **Income potential** – How much value does a **basement suite** add? How much can it be rented for? How much more valuable is a legal suite vs an illegal one?
- **Inclusions and exclusions** – if a home's sale price includes appliances and another does not, an adjustment needs to be made.
- **Motivation** – Sometimes, a house sells uncharacteristically low because the Sellers were desperate and just needed out. There are some tell-tale signs that signify whether a Seller was **particularly motivated** or unmotivated, this can help explain some of the comparable sales too.



4 | Validation

I like to estimate a home's value in a few other ways and look for consistencies, trends and anomalies.

For example:

- Perform statistical analysis on the house since it was purchased. I look at average prices when it was last purchased and average home prices today. If nothing was renovated since it was purchased, how much would it be worth today **if it appreciated/depreciated** in value along with the rest of the market?
- Perform a neighbourhood analysis – On average, what do similar homes sell for in the neighbourhood? In the last year, what's the average price of a 3-bedroom detached house in the neighbourhood irrespective of adjustments?
- Perform a competitive analysis – What's happening in the neighbourhood right now? Are houses selling in multiple offers in 6 days or are they on the market for 90 days? How does the demand for the area compare with the supply?

5 | What's Not Important

There are also some factors that are NOT important in determining market value:

- The price the Seller needs to get to break even.
- The Buyer's budget or particular **personal tastes**
- How much the Seller spent on renovations
- The asking price on **the MLS listing**

So, how much is your home worth?

Determining a home's value is a skill that comes with experience; there isn't a spreadsheet that agents can reference to calculate market value. We're starting to see automated home valuation tools in Canada that attempt to reduce a CMA to an algorithm – this can have serious consequences for sellers who might believe that the provided figure is accurate.

Most importantly: All the valuations, spreadsheets and data won't make any difference if a Buyer doesn't want to pay the price you're asking. Real market value is always determined by how much a **Buyer is willing to pay**.

If you are curious about the value of your home on today's market, get in touch. I'd be happy to provide you with a **no obligation** market analysis.



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