Sample AskJeff Dialogues

Value of a Tear Down?

Subscriber Query: I have a listing appointment with the executor of an estate for a property on a 75 x 150 lot which is likely to be a tear down. How should I prepare my CMA?

Jeff's Response:
The methodology to develop a valuation is to identify sales of vacant lots in this area which are likely non-existent because this location is 100% built. The next best technique is to identify new homes that were constructed upon a lot after the prior dwelling was torn down. To do this, you will need to identify new home sales or sales of younger age homes. Then, research the prior deed recordings on those lots to determine what price the builder/seller/owner of the new home paid for the lot with dwelling on it that was subsequently demolished.

These sales then provide the frame of reference to value the subject lot. Typically, the methodology would be to divide the selling prices of these teardowns by either their total lot square footage or front-footage to determine their selling prices per square foot or front foot….and then…apply that to the size of the subject lot to calculate its value.

This often works out to a price equivalent to 40% of the price of the new home to be built.

Subscriber Follow-Up: THANK YOU! Makes total sense! Appreciate your time—very thankful!!!

Dealing with an Under-Appraisal?

Subscriber Query: Hi Jeff, I received an appraisal on a property in Brick for which I have the buyer side on. The appraisal states that home prices are stable, and supply/demand is in-balance. I am wondering if instead it should indicate increasing prices and a shortage of home for sale. Thank you in advance for your valued insights.

Jeff's Response:
Based on median sale prices, values have increased by 18.18% since April 2020 in the Township overall or 1.52% per month. Also, keep in mind that individual properties can perform differently than the overall trend for a particular town…so your CMA should be the primary basis for pricing.

Brick Township									
	MARKETING				VALUES				
	List Price		Days on Market		Selling Prices				
1-Yr. Periods Ending	Average	Median	Average	Median	Low	Average	Median	High	# Sales
4/17/2020	$340,883	$279,900	57	34	$50,000	$330,500	$275,000	$3,495,000	1,554
4/14/2021	$401,818	$324,000	47	20	$22,000	$397,713	$325,000	$4,087,500	1,853
Change	$60,934	$44,100	-10	-14	($28,000)	$67,212	$50,000	$592,500	299
	17.88%	15.76%				20.34%	18.18%		19.24%
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This indicates that comparable sales can be adjusted at a rate of 1.5% per month based upon the time lapse from the respective contract dates through the date of appraisal. For example, if a sale that closed in December went under contract in October, the 6 months of time (from October through April) would translate to a 9% upward adjustment to the selling price.

Subscriber Follow-Up: Terrific, thanks so much. Great information and very helpful!

Home Values on Train Line

Subscriber Query: Jeff - I just read a WSJ article stating that while home prices declined for the first time since 2012, some markets have doubled over the past 7 years. The article was also saying that some economists say that means prices may have to retreat further before buyers do more than look. I am curious about how much home values have increased over the past 7 years in NJ Train Line Towns. p.s. Yesterday - your information literally was the deciding factor for my seller (of a very unique/special buyer house) to take the buyer's final offer and not wait to put it back on the market in a couple of months. Thank You. My quote: "An Otteau subscription is the best money you'll ever spend."

Jeff's Response: Here are the average sale price changes in the towns you requested from 2012 compared to 2018. If you have any additional questions, please let us know.

	Average Sale Price		
Municipality	2012	2018	% Change
Berkeley Heights	$543,395	$601,059	10.6%
Chatham Boro	$748,735	$858,050	14.6%
Chatham Twp	$836,826	$1,017,508	21.6%
Madison	$733,600	$827,039	12.7%
Millburn	$1,058,316	$1,315,584	24.3%
New Providence	$586,256	$647,535	10.5%
Summit	$905,335	$1,114,301	23.1%

Subscriber Follow-Up: This is fascinating. Thank you for this incredibly useful "train line" information. I estimate my Cost-Per-Use of all your information (mostly for my sellers) is less than $3 per "use". What agent *would not* pay $3 for quantitative third-party information to convince a seller to take an offer that, in this market, is fair? Cannot beat it.

Adjustment for Flood Insurance

Subscriber Query: Good Morning. Are there adjustments made for properties that need Flood insurance compared to properties that do not need Flood Insurance.

Jeff's Response: Yes, the primary adjustment is based upon the amount of the flood insurance premium. Assuming an annual premium of $1,000, this translates to roughly $83/month (see table below). Based upon a mortgage interest rate of 3.5%, this equates to the cost of amortizing $19,000 in mortgage principal. This indicates that a buyer would need to reduce their purchase price by $19,000 to offset the cost of the flood insurance premiums. In this example, the flood zone location would potentially reduce property value by $19,000 compared to a home that is NOT in a flood zone. Therefore, the ratio of adjustment is $19,000 per $1,000 in premium. For example, a home with a $2,000 premium would require a $38,000 adjustment.

Flood Zones			
Annual Flood Premium		$	1,000
Monthly Cost		$	83
Current Mtg. Interest Rate	3.50%		
Monthly Cost per $1,000	$4.49		
Cash Equivalent Mortgage Principal		**$**	**19,000**

Here are some additional considerations:

1. The adjustment will be higher however if the home has actually flooded in the past.
2. If a comparable sale is also located in a flood zone….and has a similar insurance cost….then no adjustment would be necessary.
3. The adverse effect of the flood zone may be partially or wholly offset if the property backs to an undeveloped wooded or conservation area that cannot be developed and enhances privacy or views.

Adjusting for Age Differences between Homes

Subscriber Query: Hi Jeff, doing a CMA for a home built in 1917, updated, plus a 2nd floor addition (3 bedrooms, 2 baths) added in 2004. to fill in the CMA analysis sheet, what do you suggest I put for the age of the house? Thank you in advance!

Jeff's Response: When marketing the house, you will need to reference its age based upon the 1917 date. For the CMA however, you should use a blended age which is referred to as 'effective age'. Based upon the addition in 2004, and the overall condition and appeal of the property, you should set an age estimate which reflects its ability to compete with younger homes. For example, because the addition has an age of 15 years, and assuming the original portions of the structure have been well maintained and updated where needed (e.g., windows, siding, HVAC, etc.), you might conclude the effective age to be 20, 25, or 30 years.

Preparing a CMA for Raw Land

Subscriber Query:
When preparing a CMA on raw land, am I correct that the fair market value would be on the value of the land itself and not on the fact that it can possibly be subdivided into 1/4 acre lots (this may never be the case if the board turns it down) or even that it may be a possible 8-lot subdivision. Right now, it is not approved or improved… hence the value is what 6-7 acres would be worth in today's market?

Jeff's Response: the "value" today should be based upon what is legally permissible for the site without requesting any variances. So, if the lot is large enough to create 4, or 8, lots which meet the minimum requirements, it should be valued as such. But if a subdivision would result in undersized lots, which require a variance, that potential would not be considered in the current market value of the property.

Another alternative is to value the property based upon the assumption that the subdivision will be granted, but that becomes a hypothetical that can inflate value.

Tennis Court Value

Subscriber Query: Hi Jeff. How much value is added for a tennis court to a single-family home in West Windsor in the 700k - 800k range neighborhood? The home was built in 1986. I do not know the age of the tennis court. The house is on an acre lot so there is plenty of yard left around the tennis court.

Jeff's Response:
This amenity is unlikely to have a significant contributory value for the following reasons:

1. Satellite pictometry indicates that tennis courts are unusual for this location, while inground pools are commonplace. There is therefore a possibility that a potential purchaser will want to remove the tennis court to install a pool, thus creating a negative contributory value.
2. The tennis court is likely causing an increase to the assessed value of the property, and therefore increasing property taxes. You can confirm this yourself by speaking with the assessor.
3. This price range is not high enough to support a financial return on specialized improvements.

CMA for Two Family Owner-Occupied House

Subscriber Query:

Jeff, we have a client who lives in two-story, two-family Cape Cod. The 1st floor occupied by the owners is a nicely updated 1,800 sq/ft 3 BR space. This owner's unit has never been rented out. The 2nd story is a small 1,000 sq ft 3 BR apt, renting for about 1,700/month. This home has 2 acres, an in-ground pool in a country setting, and has only been occupied by the owners. The standard multi-family comps in this area are nothing close to this condition, standard size, and are tenant occupied. What is the best approach to value this type of home: a straight gross rental multiplier for example, or something more unique like a single-family comparison then adding a sales value for the small apartment only?

Jeff's Response:

Because this is a multi-family, single family house prices are not relevant. So, the Gross Rent Multiplier (GRM) approach is the best technique. The benefit of this home being superior to other multi-families will be reflected in your estimate of market rent. In other words, superior living space = higher rent. Then, when the higher rent is multiplied by the GRM it will yield a higher value. But you should understand that the superiority of this space will create added value ONLY to the extent it commands a higher rental rate.

I taught this in our CMA classes over the past week…you may want to attend one of these in the future. The GRM technique is described below:

> Gross Rent Multiplier Approach: For income producing real estate, value is determined by income production. Therefore, the Sales Comparison approach takes a back seat to the income approach. For smaller size properties (2-6 units), you should use the Gross Rent Multiplier Approach, as follows:

- Estimate the gross monthly rent for the apartments.
- Identify recent sales of similar properties and divide their sales price by their gross monthly rent to derive a Gross Rent Multiplier (GRM) for each.
    - Be careful NOT to mix property types. In other words, if you subject is a 4-family, then only apply this approach based upon sales of 4-family homes.
- Identify a range of multipliers which range from 170-177 in the example below.
- Select a GRM for the subject property from within this range based upon how it compares to the comparable sales. A logical midpoint would be 175, which falls in between the 170 for Sale 2 and the 177 for Sale 3.
- Multiply the estimated gross monthly rent you developed in #1 above, by the multiplier you selected in #4 to determine the market value.

GROSS RENT MULTIPLIER APPROACH				
	SUBJECT	COMPARABLE 1	COMPARABLE 2	COMPARABLE 3
Address	137 Main Street	181 Main Street	1769 Broad Street	37 Center Street
Sales Price		$450,000	$375,000	$425,000
Gross Monthly Rent	$2,400	$2,600	$2,200	$2,400
Gross Rent Multiplier		173	170	177

Valuation Conclusion

Gross Monthly Rent	**$2,400**
Gross Rent Multiplier	**$175**
VALUE INDICATION	**$420,000**

Finished Basement or Square Footage?

Subscriber Query: Hi Jeff, I have a listing on which we have accepted an offer. The discussion came up between the buyer's agent and me concerning the permits for the basement finish. I had sold the property to the couple 10 years ago and did not recall this issue when they purchased the home. The "basement" is the lower level of a ranch home that is 3/4 above ground, since the property slopes from the front to the back of the home. The rear of the house is completely above grade and is the finished portion of the basement with a family room, bedroom, and full bath. The garage and workshop are in the below grade portion of the basement and are obviously not finished. My question is, if 3/4 of the basement if above ground, is it actually a basement?

Jeff's Response:
Unless the lower level is 100% above grade, it will be considered a finished basement. See page 608 in the following link which contains instructions to appraisers for mortgage underwriting:

https://www.fanniemae.com/content/guide/sel053116.pdf

> *Quote from Mortgage Underwriting Standards: Gross Living Area - The most common comparison for one-unit properties, including units in PUD, condo, or coop projects, is above-grade gross living area. The appraiser must be consistent when he or she calculates and reports the finished above-grade room count and the square feet of gross living area that is above-grade. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple reports, the room count, and gross living area should not change. When calculating gross living area*
>
> - *The appraiser should use the exterior building dimensions per floor to calculate the above grade gross living area of a property.*
> - *For units in condo or co-op projects, the appraiser should use interior perimeter unit dimensions to calculate the gross living area.*

- *Garages and basements, including those that are partially above-grade, must not be included in the above-grade room count.*

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid.

Market Differential in Summit, NJ

Subscriber Query: What change has occurred in the Summit market since 2015 and today?

Jeff's Response:
Sandra – below please find pasted below our price analysis for Summit City based on the 2MM+ market. In this case, the median sales price has increased by 10.4% since 2015 or 2.6% annually.

Summit City - 2MM+									
	MARKETING				VALUES				
	List Price		Days on Market		Selling Prices				
1-Yr. Periods Ending	Average	Median	Average	Median	Low	Average	Median	High	# Sales
7/1/2015	$2,639,074	$2,495,000	43	24	$2,000,000	$2,562,054	$2,450,000	$3,650,000	27
7/1/2019	$3,045,211	$2,750,000	49	38	$2,287,500	$2,881,888	$2,705,000	$4,257,000	19
Change	$406,136	$255,000	5	14	$287,500	$319,833	$255,000	$607,000	(8)
	15.39%	10.22%				12.48%	10.41%		-29.63%
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