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## APPRAISING

### 'The Price Is Right,' or Is It?

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*Receiving an accurate appraisal of a home will help reduce anxiety for both the transferee and corporation, as well as save money on the bottom line. Martin explains that an experienced relocation appraiser is best suited for setting such a price, and warns that using an inflated price could result in an extended marketing period and unnecessary cost to the homeowner or corporation.*

A story by nationally syndicated Scripps Howard News Service about "pricing a house right" created a puzzling and problematic situation regarding the real estate market and appraiser performance. The author failed to instruct homeowners to contact professional appraisers—in particular, ERC relocation appraisers—when seeking to forecast the selling price of a home, as well as predicting the amount of time the home would be on the market.

The home used as an example was located in a neighborhood in which the most recent sale occurred a year ago. Selling prices at that time averaged \$500,000. The home was marketed through a "well-placed" real estate agent for \$699,000. The home eventually sold, but for a price (\$625,000) that was far below what the owner was asking.

The article noted that the \$699,000 price tag was based on comparables that were from outside the subject's immediate Northern Virginia market area. Typically, in most markets, a home valued at \$625,000 that is listed at \$699,000 would be considered grossly overpriced. In fact, such a listing could remain on the market for an excessive time period. The ratio of the normal sales price to final list price in a highly desirable area typically is about 95 percent or greater.

There also was no mention in the article as to whether the home really was worth \$625,000. Nor did the article address what would have happened had the property been appraised at a more appropriate opinion of market value. To gain an accurate appraisal, a seller must consider that one sale does not make a market and a home is not worth what just one buyer pays for it.

Interestingly enough, when contacted, the author said she was under the mistaken impression that appraisers are used only for mortgage purposes at the end of the sales process. The author also seemed to think a pricing spread of 12 percent for the said property was reasonable. Most companies that use real estate agents and appraisers for relocation services require their appraisals to be within 5 percent.

How long would a real estate agent or an appraiser stay in the relocation business if he or she was of the opinion that a pricing spread of nearly 12 percent is acceptable? How "well placed" is a real estate agent who has a 12 percent spread?

As for the homeowner, what typical homeowner has the knowledge and experience to be able to interpret data from sales and listing comparables? While some homeowners have a general idea, many more have a difficult time interpreting sales and listing data. Overpricing a home can lead to an unnecessarily extended marketing period. Even when the price ultimately is reduced, this actually can lead to potential buyers and real estate agents ignoring the home; thus, the home sells below market value.

Another potential problem of overpricing a home is the "holding cost" that is incurred while the home stays on the market. The cost each month of maintenance, taxes, insurance, mortgage, lawn care, utilities, and other necessary services easily can cost up to 3 percent of the vacant home's value.

For example, a property listed for 10 percent more than market value that has remained on the market nine months in excess of normal marketing time could lead to a holding cost of 18 to 27 percent of the home's market value. The seller could have yielded an 8 percent to 17 percent greater return at a 10 percent lower list price, avoiding the excess marketing time.

Most homeowners are unaware of the size, condition, modernization, features, and level of amenities of other homes to make an adequate valuation of their own property. While there are many excellent real estate agents, there are some who do not make proper comparisons and "buy" listings by grossly overpricing, thereby luring potential sellers to list with them.

Relocation appraisers and real estate agents have an intimate knowledge of issues, such as a shortage of homes in a particular market, allowing them to direct clients to comparable, contiguous markets. While there are a limited number of relocation appraisers and real estate agents who are trained in relocation practices as members of ERC, using the services of ERC-certified professionals is of great benefit.

The cost of a relocation appraisal is greater than that of a typical appraisal that is done expressly for mortgage purposes. Although the cost is greater, it is an excellent investment that brings a much higher return. The relocation appraisal employs forecasting methods that determine "anticipated sales price" that are not used in retrospective appraisals or most mortgage appraisals. ERC's Web site, [www.erc.org](http://www.erc.org), provides a directory of professionals including appraisers. In particular, look for appraisers with the CRP™ or SCRPT™ designations.

Unlike a homeowner or a real estate agent, the appraiser is the only party who has no financial interest in the home. Their only motivation is to value the home to be consistent with the market. Using a knowledgeable real estate agent from the ERC Directory in conjunction with the appraisal service most often will yield a professional result in determining a reasonable price for the property to sell within 90 days to 120 days or less.

The closer a relocation appraiser comes to the actual sales price, the better. Corporations require that the typical margin for most relocation appraisers to be 4 percent or less; few allow a 5 percent margin. In most cases, companies hire two appraisal companies to perform the service. They seek a third in a case when there is significant discrepancy in the value.

The best choice is to use the services of knowledgeable relocation professionals to determine what price is right. When taking into consideration the costs associated with excessive marketing time, choosing the highest price suggestion can lead to the lowest return. Clients will find that the savings of employing the services of an ERC member far outweigh the cost of looking elsewhere

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