Much more to pricing than comparable sales

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Pricing a home in a market that is trending upward can prove a daunting assignment, especially in areas where the sales data is sparse, often the case in small communities in which residents are content and seldom want to move.

It would seem that a home in an area that had not witnessed a house enter the market in the past three or four years would have value. The place is so popular that no one ever leaves, like Hotel California.

In truth, the lack of activity can plague such a community since there are no comparable sales of any consequence.

In a development with cookie cutter houses or condos stacked on top of each other with the same square footages and floor plans, the task of assessing values is simple. A house should follow simple supply and demand and be worth whatever someone is willing to pay for it.

Unfortunately for buyers and sellers, this is only true if the buyer has cash.

Most houses are purchased with loans, and a majority of those loans are backed by Fannie Mae or Freddie Mac and must conform to certain regulations.

In all cases, one of those regulations is the requirement that the home be appraised by a licensed appraiser. In cash sales, the appraisal is most often foregone.

Now the cash buyer has an unfair advantage, as that person or entity can pay the market price. The conventional buyer, meanwhile, can only pay what someone else thinks the house is worth.

Buyers use current homes for sale as comparable sales, while appraisers use houses that have sold and closed as comps, and those sales can date as far into the past as six months. Six months can be a lifetime in 12South or the Gulch.

But there are opportunities to buy houses with borrowed money that do not appraise for the sales price. The first obstacle for the buyers to overcome is the psychological toll that they paid too much for the house, that their agents betrayed them and were not diligent enough in their research. How could this happen?

The realization is that the seller, the listing agent, the buyer and the buyer's agent have agreed on a price at market value. This decision usually comes after and exhaustive search of the market.

Obviously, in the minds of the parties involved, the price is right. Then, one person, based on old sales data, says that it is not. Unfortunately, the appraiser's opinion trumps all others. One man, one vote, and it is the only vote that matters.

After the emotional damage is repaired, buyers should seek other options for purchasing the home, rather than simply running away with their collective tails between their legs.

For example: A $200,000 sale with a buyer who wants to put 5 percent down, or $10,000. If the house appraises for $195,000, the buyer may borrow 95 percent of 195,000, or $185,250. Instead of putting down $10,000, they will need $14,750.

If this is an FHA loan, that appraisal lasts six months, even if the current buyer terminates the contract and a new buyer is willing to pay the $200,000. With a conventional loan, a new appraiser would appraise for the new buyer, never knowing that the other appraiser had felt the house was overpriced.

Appraisers are a necessary part of the buying equation and are usually quite good. But they are human.

When my sister Currey sold a house years ago, there was a discrepancy over the square footage. When she bought, the appraiser set the square footage. When she sold years later, that appraiser found significantly fewer square feet.

In order to resolve the dispute, a third appraisal was ordered, and this appraiser redelivered a different square footage than the other two. Three appraisers, there square footages, three different prices.

Sale of the Week

This week's sale is located at 2310 Elliot Avenue, # 604, in the Park at Melrose development and sold for $265,000.

These condos were built in 2007 and are in the Waverly Belmont area, near Zanies. Some, such as listing agent Tim Kyne of Keller Williams, may refer to it as 12South, and that is alright, as well. It certainly helps its marketability, and those boundaries are subject to interpretation.

This unit sold for $265,000 in only 19 days and has 1,274 square feet, two bedrooms and two full bathrooms. Seven years and one Great Recession ago, the sellers paid $212,525 for the home thereby receiving a healthy return on their investment.

The unit was well appointed with new carpet, granite counter tops, stainless steel appliances, a washer, a dryer and a private balcony. As for amenities, the development includes a community pool and a fitness center.

One could buy a one-bedroom, one-bath with 650 square feet in the Gulch for the same price. As the saying goes, that's why they make chocolate and vanilla.

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