How to create a winning CMA

Purpose:

This 3-hour course is will teach you how to create a Comparative Market Analysis (CMA) before listing a home for sale. We will show you how to research a home using the Internet, Tax Records, and MLS. This course will show agents how to examine outside factors affecting value such as new construction, short sales, and foreclosures. Finally we will demonstrate how to the Matrix CMA wizard to create a professional looking CMA for your listing appointment.

Let's get started!

The phone rings and you now have a referral for a listing. The seller wants you to come out and provide them an analysis of their home’s value – a CMA. You want to make sure it is done correctly because if you are too high, the listing will sit. If you are too low, you may not get the business. If your presentation is not professional, the seller may list with someone whose presentation looks better – regardless of value.

You now need to start collecting information on not only the home, but of the area in which it is located. The data for our CMA will come from many areas:

- Internet Search
  - Google Search
  - Zillow Search
- Tax Records
- MLS records
- Exterior Influences such as:
  - Required updates
  - Competing new construction
  - Interest Rate Changes
  - REO and Short Sale Inventory
  - Seasonal Market Fluctuations

Search the Internet

An Internet Search is as easy as typing www.google.com and doing a Google search on the property. When you do the search you will see the property and its map location on Google Maps. By clicking on the map, Google will open up a large map showing you the property's exact location with a Satellite View of the property which will allow you to zoom in with amazing clarity. There is a street view feature in Google Maps that lets you jump down to view the neighborhood on a street view level. With the street view you can pan 360 degrees and move up and down the neighborhood to get a look of not only the house, but the surrounding homes and community.
Your Internet Search will also reveal other links such as a link to the home on Zillow.com or perhaps any other sites that might have had the home when it was listed before – or even if the home is in the foreclosure process.

Zillow

Pay attention to Zillow because your clients are looking there. Zillow has a listing for almost every home, whether the home is actually for sale or not. If the subject property is listed, that information came to Zillow either because the listing agent or owner inputted it directly – or through a feature called ListHub. Brokers choose to opt in or out of using List Hub for their firm’s listing inventory through the Central Virginia Regional MLS.

If your property is not listed, it will still show up on Zillow but stipulate that it is “Not for Sale.” Zillow shows their estimate or their “Zestimate” of a home’s value. Zillow is a bit secretive about how they create their Zestimate, but the only thing they have is information is based on data collected from public tax records. It will include the number of bedrooms, baths, finish sq ft, lot size, year built, last sale date
and price, more. Zillow makes market assumptions and either adds or subtracts value based on their perception of trends in market values which affects is Zestimates.

Zestimates will be presented as a specific value, but there also will be a range of value offered and what the change has been for that value in the past 30 days.

It’s good to understand Zillow because your clients are likely looking there. A great way to combat the information provided by Zillow is though Zillow’s own published accuracy ratings.

Zillow’s Accuracy

At the bottom of the main page of Zillow is a link that says “Zestimates.” By clicking on that link you will see a “Data Coverage and Zestimate Accuracy” page for Zillow. Simply click on the States/Counties option below and search for your county or city.

Zillow gives themselves a rating of 1-4 stars with 4 being the best. For example, Zillow gives itself a 4-star rating for Henrico County, but also shows its median margin of error is 6.9%. On a $300,000 home Zillow’s value would be off by an average of $20,700. If you look at Henrico County, a home that was priced 7% high, sat on the market 10 weeks before it sold, while a home that was priced within 3% sold in less than four weeks. One simple rule of real estate is that the longer a home stays on the market, the lower the final sales price will be.

Zillow is very upfront about their Zestimate being just a “starting value” in pricing a home. It cannot see inside a home and know what upgrades might have been done to a home and therefore
is severely limited in establishing an accurate value.

**Tax Records**

Now that you know what Zillow thinks, it is time to do a Tax Record search and Tax Record CMA of the property. To do this, log into Tempo and choose Public Records. The iMapp Tax system by default will show you the last county/city that you searched. Choose the correct county, type in your property address and hit search.

Once you have found the property on your search, click the “Comparable” option on the right side. The comparable option will allow you to do a market analysis from the iMapp Tax Records that uses any recent sales – not just those listed in MLS. Be sure to remove any sales/transfers that might have had no value such as a transfer between spouses or a transfer into a legal Trust:
Setting Criteria for iMapp Tax Search:

You can adjust the criteria for your iMapp Tax Search in the following categories:

- Lot Size
- Building Square Footage
- Location
- Sold Date
- Year Built
- Bathrooms
- Bedrooms
- All sales or just MLS sales
- Building Levels
- Garage or not
- Pool or not
Once you have adjusted your criteria, then you will see a list of properties. Those displaying a Blue “R” are sales that went through MLS. The others could have been for sale by owner sales, new construction, or transfers between spouses or into legal Trusts.

Just as with Zillow, public tax records do not always know what is inside a home. County assessors are limited in their ability to know the interior condition or upgrades to a home. They don’t always give value to premium lots, and they certainly cannot deduct value for poor floor plans, dated features, and wallpaper.

We began our CMA research with a look at public records and popular web sites such as Zillow because it gives us perspective on what the public might think the value of their home is.
MLS is your best tool for doing a professional CMA

Regardless of where you sell real estate, your Multiple Listing Service (MLS) is the ultimate tool to assist a Realtor in creating a professional CMA. MLS usually will have much more data than public tax records and Zillow because you can actually see pictures of past sales, read remarks, access the past listing and sales history, and contact your fellow Realtors to gain insight on individual sales.

Steps to a successful MLS search

- Search by correct category – single family? Condo-Townhouse?
- Try to stay within 6 months back on sold data
- Keep your price range within 15% high and low of your average sales value from Tax Records
- Stay within the same or similar school districts
- Search like numbers of bedrooms and baths
- If possible stay within same subdivision/community
- Stay within 20% plus minus of square footage (not the best category to use)
Don’t forget the old adage that “less is more.” Too many criteria in an MLS search will limit the number of comparable sales you see. Start with very few criteria and slowly add criteria to bring the number of comparable sales down to a manageable number and to ensure you are getting quality comps. **It’s not about the number of comps – it’s the quality of the comps.**

**Understanding Search Categories: Active, Pending, Sold, and don’t forget Expired**

Active – These are homes currently on the market. This is your immediate competition. Examine the listing history to find true days on market, any prices changes, and if the property has been listed by multiple firms.

Pending – These homes are a barometer of the current housing market. The same advice applies as with Active listings. The pended inventory data can tell you how quickly homes are selling now – remember the quicker the sale, the more likely the seller achieved their list price.

Sold – This is your six month history on sales. You must look at these homes and determine which homes an appraiser will use as comparable sales for any future appraisal.

Expired – Most agents forget these comps. Expired homes represent homes that never sold and they can offer a wealth of information into the future of your listing. Was the home too outdated? Was the price too high? Did the home lack central air? These listings are a great insight into why homes don’t sell which is just as important as why homes sell.

**You research is not done yet?**

Once you have done your successful search and found your data it’s time to do more research. A good CMA not only looks at nearby and comparable sales, but it examines other outside factors that affect market value.

- Required updates
- Competing new construction
- Interest Rate Changes
- REO and Short Sale Inventory
- Seasonal Market Fluctuations

**Required updates**

A buyer does not just buy a home, they commit to a monthly mortgage payment and any upgrades/repairs that home will need while they are the owner. The National Association of Realtors 2012 survey of Home Buyer habits show that the average homeowner moves every 7 years.

If a buyer is purchasing a home today they need to be aware of what that home will cost monthly plus any improvements they will need to make while they own the home – including the cost of upgrades and repairs that will be required to sell the home for top dollar one day.
When creating a CMA you must take into account the condition of a home and the condition of homes that you will directly compete against. Buyers are looking for homes that are as move-in ready as possible, but they are also looking for homes that will require the least amount of repairs during their ownership.

More need updates equals lower sales price

The more updates/upgrades a home will need, the less attractive a home will be to potential buyers and a smaller pool of buyers will be available for that home. If there are too many updates/upgrades needed, owner occupant buyers will just walk away. Owner occupants represent the largest pool of buyers and also the class of buyers who are willing to pay the most for a home. They are the ones who typically do not want to spend money beyond the sale to improve a home for various reasons. It is very important that a seller understands their potential buying audience and the motivations and needs of those buyers.

FHA buyers – only putting down 3.5% - they have very little cash as a down payment and typically have no money after closing for repairs/improvements.

Conventional Loan Buyers – They only difference between them and an FHA buyer is that they have more cash for a down payment. They don’t want to do additional repairs after closing that will have to be paid by cash, financed by a credit card, or financed through an equity line of credit.

Investors looking for rentals – This class of buyers are not typically afraid of homes that need light cosmetic repairs like paint, carpet, or appliances. They are savvy buyers who won’t pay full price and typically are looking for homes with longer days on market because they know those home owners are more likely to negotiate more on price.

Investors looking to flip – This class of buyer is the most savvy. They will buy the homes that the above categories of buyers cannot. They also are looking to make at least a 30% return on their investment after expenses.

When counseling a seller on getting their home ready to list, keep in mind there are certain items that must be repaired for FHA financing. When assessing what should be done, first start with the basic structure and mechanics of a home. If the roof is defective with broken shingles or perhaps just at the end of its life, it should be replaced. It’s a good idea to address major structural and mechanical issues that could derail financing before turning to cosmetic issues and upgrades. If a house has a leaky roof or a non-working furnace it doesn’t matter how fantastic the granite in the kitchen looks.
Hierarchy of Repairs/Updates – Here is a list of repairs items in the order or importance.

1. Structure of Home
   a. Roof
   b. Wood rot
   c. Broken windows
   d. Damaged foundation
   e. Termite damage
   f. Active plumbing leaks

2. Mechanical Systems
   a. Heating and Cooling
   b. Hot water
   c. Electrical
   d. appliances

3. Cosmetics
   a. Paint
   b. Carpet/flooring
   c. landscaping

4. Upgrades
   a. Kitchen
   b. Bathrooms
   c. Windows
   d. Central air

The more repairs and updates needed to a home, the fewer the number of buyers who will be able to purchase that home. A good strategy is to try to address all needed work on a home, but if money is tight, knock out the items that would pose the greatest issues with buyer financing.

Your CMA should take into account any work that needs to be done to the home and any upgrades that would be needed to achieve a sale at the highest list price. Your CMA should always express a range from low to high with low being the house sold “as is” and high being the home sold with all updates and repairs. Where your seller ends up in that spectrum will be determined by how much work they are willing to do to bring the home into top condition.

Impact of new construction

In the cruel world of real estate, new construction is the natural predator to resales. If there is nearby comparable new construction that offers the same quality of schools and levels of amenities, the new will sell first for a much higher price. When pricing a resale you must take into account that the resale
must be priced lower and the difference in price will be determined by how many upgrades are needed on the resale.

If a home that was built in the 1980s and has hardboard siding, wood windows, an original kitchen, original roof and HVAC, it could easily take $40,000 to upgrade that home to be similar to new construction. So if a new home was selling for $300,000, the resale might have to be priced around $260,000 or less to be competitive. It could very well be that the new construction was not an issue last year because the subdivision was not open for sales, but when the new construction hits the market, the impact on pricing is immediate.

There are other factors with new construction that could further hurt the value of resale homes such as updated floor plans, walk-up attics, and higher ceilings. In most cases there is no way to address these items in a resale so the only thing to do is reduce the price further.

**Interest Rate Changes**

Large increases in interest rates and other changes in financing can also have an impact on your CMA. When the government offered subsidies to first time home buyers we saw a market crash after those subsidies ended. If interest rates jump suddenly that impacts the purchase power of buyers and has a downward impact on values.

**Competing REO and short sales**

Appraisers are supposed to use like-sales when doing appraisers and Realtors should follow the same rules. If there are just a couple short sales or REO (Bank term for Real Estate Owned) sales in a community, but there is an ample supply of arm’s length transactions, the REO/Short Sale should not be used as comparable sales. The problem in some markets is that the supply of REO/Short Sale homes is so high that they are the market and arm’s length sales become the exception. In those cases, the REO/Short Sales have a definite downward impact on values even though your listing might be a normal sale.

**Seasonal Market Fluctuations**

Your CMA value is also directly impacted by the time of year. Home sales traditional rise in the Spring and reach a peak around July before easing off until January when the cycle starts over. The graph below from RE Stats shows a typical change in pricing for the Richmond area.
How to create a winning CMA

Using the Matrix CMA Wizard

1. Select the My Matrix Tab
2. Choose My CMAs

Choose the option to Start a New CMA
How to create a winning CMA

1. Select an existing contact or create a new contact.
2. Add a description.
3. Choose the next option to add pages

1. Select the pages you want in your CMA.
2. Upload custom pages.
3. Set as default if you like the changes.
4. Choose the next option to add info regarding your subject property
How to create a winning CMA

How to add your subject property data to your Matrix CMA

1. Choose the option to add your subject property data manually or;
2. Enter an MLS # and import the data from an old listing or;
3. Create an MLS search to find the subject property or;
4. Search and upload data from the Tax Records

Manual Input Option

1. Enter property data
2. Upload a photo
3. Add remarks
4. Choose the next option to customize the cover page
How to create a winning CMA

Search for Subject Property in MLS option

Create the search you desire and find the subject property

Run your search.
1. Select the subject property.
2. Choose the option to fill from the selected property.
3. Choose the next option to Customize your CMA Cover
How to create a winning CMA

Search from the tax records:
1. Choose the county
2. Search by owner name, address, etc.
3. Search Tax Records

1. Select the appropriate tax record
2. Choose the option “Fill from Selected”
3. Choose the next option to customize your cover page
How to create a winning CMA

Verifying Data and Creating Custom fields

Once your data has been updated:
1. Verify all information
2. Add custom fields – this will be helpful for making adjustments for items such as lot location, upgrades, closing costs, and more.
3. Choose the option to update your cover page.

Cover Page
1. Enter client data
2. Modify your information in necessary
3. Choose the next option to choose comparable sales
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Selecting your comparable Sales

1. Search for comparable sales, or...
2. Choose them from your client’s cart

Do you search – it is a good idea to stay within the subdivision or at least the same school districts

Choose your comps. You may wish to only choose sold comps and if so – choose the properties that most closely resemble the subject property.

1. Select those properties you want.
2. Add them to your CMA
How to create a winning CMA

1. Once you import your comps you can still search for other comps or;
2. Add comps from your client’s cart
3. Next choose the option to map the properties

Matrix CMA creates a map page that shows the location of the subject property and the comparable sales
How to create a winning CMA

Making dollar adjustments – this is the most critical part to a successful CMA

Make dollar adjustments

1. Choose the detail view by clicking on the property address or;
2. Click on the link to view the in detail mode.

Making dollar adjustments

Always adjust to the subject property. If the comp is superior, adjust down. If the comp is inferior, adjust up.

1. Add your adjustments based on your broker’s advice.
2. Add adjustments for the custom fields you added.
3. Select the “next” option and do this with every comparable sale you have selected for your CMA.
How to create a winning CMA

Setting the price!

Pricing
1. Matrix CMA will give you the low, median, average, and high prices.
2. Matrix CMA will offer a suggested price.
3. You must input your recommended list price.
4. Finally choose the option to finish and print/email your CMA.

CMA Summary
1. You now can view and print your CMA
2. You can also email your CMA
3. Save your CMA

Don’t forget your CMA will show up on your Client’s Portal as well.
How to create a winning CMA

Congratulations – You Did It!

Your professional and well thought out CMA will help you win listings and price homes to sell