

# How Estimates of Market Value are Determined for Residential Properties

The purpose of this publication is to help property owners to understand the steps involved with estimating the market value of residential properties. Establishing market value is important when considering a property's assessed value for real property tax purposes or when considering buying or selling a property.

## MARKET VALUE

Market value is generally defined as the price a willing buyer would pay a willing seller for a property in its present condition with neither buyer nor seller under pressure to act (such as career relocation, death of a family member, divorce, etc.). A market value sale also is known as an arm's length transaction.

A number of factors may affect a residential property's market value, including:

- External characteristics - 'curb appeal,' home condition, lot size, popularity of an architectural style of property, water/sewage systems, sidewalk, paved road, etc.
- Internal characteristics - size and number of rooms, construction quality, appliance condition, demonstrated 'pride of ownership,' heating type, energy efficiency, etc.
- Supply and demand - the number of homes for sale versus the number of buyers; how quickly the homes in your area sell, and
- Location - desirability for a particular school district, neighborhood, etc.

## THE SALES COMPARISON APPROACH

The most common way to determine the market value of a residential property is to use the sales comparison approach. This is the primary method used by professional appraisers to determine the market value of residential properties.

To determine an estimate of a property's market value, arm's length comparable sales are used. By examining recent sales of at least three properties in a general (or similar) neighborhood that are comparable in building style, size and construction, one can begin to get a good understanding of a residential property's market value. However, it is important to consider the circumstances of such sales - perhaps the seller was desperate to "unload" the home, or the buyer paid much more than the asking price

because there were other interested parties. Market value and sales price are not always the same.

Comparable sales should include characteristics similar to a given property, such as lot sizes, square footage, home style, age, and location of the home. A new three-bedroom Cape Cod house may not be comparable with an older three bedroom split-level ranch, even if they are on the same street.

Since it may prove difficult to find an exact comparable sale, allowances must be made. To arrive at an estimated market value, dollar adjustments are made for differences between the property being valued (also known as the subject property) and the comparable properties that have sold.

### **Hypothetical Comparable Sales Analysis**

(Values are strictly estimates and should not be used in your analysis)

ATTRIBUTE

Subject Property

SALE #1

SALE #2

SALE #3

Sale Price

Sale Date

Recent

Recent

Recent

Property Condition

Good

Good

Good

Good

Year Built

1997  
1997  
1997  
1997

Square Feet

1,500  
1,500  
1,500  
1,500

# of Bedrooms

3  
3  
3  
3

# of Baths

1  
1  
1  
2 (-\$\_\_\_\_)

# of Garage Spaces

2  
2  
2  
2

Location

Avenue A  
Avenue B  
inferior location (+\$\_\_\_\_)  
Avenue C  
similar neighborhood  
Avenue A

Lot Size

½ acre  
½ acre  
½ acre  
½ acre

Basement

Full

Full

Full

Full

Adjusted sale price

(indicated value)

For example, assume that a residential property is a 1,500 square foot ranch with 3-bedrooms, 1 bathroom, full basement, and two-car garage on ½ acre of land. It was built 6 years ago in a nice neighborhood. Three recent arms-length sales are identified that appear to be comparable with the subject property. However, Sale #1 is in a less desirable (or inferior) location and Sale #3 has an additional bath. Sale #2 is almost identical to the subject property.

To estimate the market value of the subject property, one needs to determine how the differences between the subject property and each comparable sale property relates to prices at which they sold. In this case: Sale #1 is in a less desirable location, which lowered the sale price; and Sale #3 has an extra bath, which increased the sale price. A grid, such as the one above, is helpful to arrive at the market value of residential properties. Because the subject property is not in an inferior location, Sale #1 should be adjusted to reflect what it would have sold for in the subject property's neighborhood. Sale #3 with an extra bath needs to be adjusted to the sales price of a property with only one bath. Because Sale #2 is almost identical to the subject property, no adjustments are necessary.

By adding and deducting these adjustments to the comparable sale, an adjusted sale price is arrived at for each sale.

A common mistake is to average the comparable sales prices to arrive at the market value of the subject property. This can yield widely varying results. Only the sales that are most similar to the subject property should be given the most weight.

## **WHERE TO FIND COMPARABLE SALES**

- Local assessors' offices should be able to provide the sales history of a particular house, neighborhood, or style of architecture. Some assessors also provide lists of recent sales that one can browse and compare to the assessment roll.

- Some municipalities choose to provide local sales and assessment information online [http://www.orps.state.ny.us/ref/asmtdata/local\\_data.htm](http://www.orps.state.ny.us/ref/asmtdata/local_data.htm) .
- Some private companies provide comparable sales online (some at a nominal cost); search for them using keywords such as “comparable home sales” or “comparable sales.” In addition, one may wish to try searching “real estate database – New York State” for additional property information.
- Many local newspapers are good sources of real estate information; they often have quarterly sales reports in the real estate or business sections.
- A real estate agent may be willing to share his or her expertise and sales history information.

## **THE ASSESSOR’S ROLE IN DETERMINING MARKET VALUE**

New York State Law requires all properties in each municipality to be assessed at a uniform percentage of market value each year. This means that all properties in each city, town, or village must be assessed at market value or all at the same uniform percentage of market value each year. Your assessor may use mass appraisal techniques, real estate market trends, the sales comparison, as well as other approaches to value to arrive at a property’s estimated market value, which is available on the assessment roll. Once the market value of each property is determined, the assessor applies the municipal-wide level of assessment to the market values. In many communities, where assessments are maintained at a level of assessment of 100, a property’s assessment is the assessor’s estimate of its market value. If a community is assessing at a percentage of market value, each assessment should be based upon the percentage being used throughout the community. For instance, if the market value of a property is \$100,000, and the community is assessing at 30 percent of market value, the assessment should be \$30,000.

If one determines the market value of his or her property and feels that the assessor’s estimate of market value (upon which the assessment is based) is too high, then the property owner should contact the assessor’s office to learn the procedures for informal assessment review. During the informal review process, the property owner and the assessor can each discuss the property’s inventory (or characteristics) and how the market value estimates were determined. If the property owner remains unsatisfied with the assessment, he or she has the right to formal administrative and judicial review of the assessment. The assessor can provide the property owner with information on these processes.