



Property Challenges Value, Marketability, Financing

In real estate transactions today, we have many challenges that we must be prepared for and expect whether you are listing the property for sale or presenting the property to the buying public.

Property challenges include marketability, qualifying for financing, “AS IS” condition, disclosures, material facts, home inspections, federal laws and regulations, city and county maintenance, housing codes and ordinances, final walk-through visit and a lot more.

Are you ready for the challenge?

Real estate professionals and companies that anticipate, can identify, have trusted resources and be solution oriented will smooth out all the rough edges in taking steps to solve challenges when they arise. It’s all part of good planning, something that is essential for any agent today who wants to run a successful real estate business.

Your main goal is getting the deal to the closing table on time with happy sellers and buyers.

Property Challenges

Foreclosure or REO (Real Estate Owned) and Short Sale properties represent great opportunities for home ownership today. Owner-occupants can buy properties for less than half of what they cost a few years ago.

Experience and knowledge is the key in marketing and financing the purchase of these properties, as many issues can arise:

1. Property condition: the most common and significant issue
2. Proper chain of title
3. Proper powers of attorney

In addition, the rates and terms for financing can vary tremendously, so sourcing the right lender for a buyer's specific needs is especially important.

Understanding the essentials of discovering various current mixes of property challenges in the front end of a sales transaction will help get it across the finish line in the back end as a closed transaction.

What We Know

The U.S. commercial real estate sector represents approximately \$5.2 trillion of value supported by \$3.2 trillion in debt. Its health is vital to the economy (estimates show commercial real estate constitutes 13% of GDP by revenue) and our nation's financial system. An estimated 9 million jobs are generated or supported by real estate.

On the equity side, real estate accounts for 46% of the \$13.6 trillion in assets held by partnerships in the U.S. It includes \$460 billion of private investments, \$184 billion from pension funds, \$300 billion from the real estate investment trust (REIT) market and \$30 billion from the life insurance companies. On the debt side, real estate is collateral for the nearly \$3.2 trillion of commercial bank debt, \$700 billion from commercial mortgage backed securities, \$300 billion life insurance companies and over \$17 billion from pension funds.

Real Estate Professionals

Real estate agents have many responsibilities to fulfill for their buyers and sellers. A real estate agent should have a great grasp of the market, particularly in the neighborhoods where their clients have properties in or where clients want to buy. You should also have a good idea on how to get financing for your clients, as well as laws on taxes and local zoning. Having a wide network of contacts that can help your clients in their various requirements related to their real estate concerns.

An agent has to keep himself in touch with the local current real estate market. A typical agent begins the day by studying the market activity from the previous day. This report can be created as a Word document and sums up developments in the business such as new real estate listing, price ranges, items that have been sold, new homes, among others. Being on top of your game with the latest developments in the real estate industry is a must for every agent. This particularly helps in marketing tasks as well as in negotiating for better terms for your client.

Agents also do multi-tasking for the most part of the day. We have to take care of paperwork, explain provisions of a contract to the client, coordinate inspections of a property, and review documents.

Likewise, a real estate agent has to work closely with prospective buyers and sellers. This is not just a simple case of driving clients around. A good real estate agent has to determine the needs of their buyer clients, find suitable properties, and gather adequate information to better assist the buyer in making decisions.

Most individuals who are buying and selling properties are usually concerned with the complexities of doing a real estate transaction as well as the money involved. It is a must for every agent to help his client in understanding each process, from the negotiation, inspection, and going over contracts. Thus, a good agent should be knowledgeable and skilled enough to explain the different processes, policies and procedures in each contract opportunity. Nothing is standard today in a sales transaction.

In addition, a good real estate agent will also undergo continual education to update his skills and knowledge on the real estate industry. Since the business is one of the more complicated fields, it is but imperative that you stay up-to-date on the latest trends and issues affecting homeownership.

Being a real estate agent is certainly no easy task. In today's economic climate, things are constantly evolving. Trends and guidelines can change daily.

Staying on top of the changes and knowing how to navigate the challenges is crucial to the real estate transaction. Property challenges can take time to handle and we can greatly reduce turnaround times and stress if we deal with the situation right from the beginning.

Value

Real estate professionals are aware of all real estate sales within their area, and analyze them to develop common units of comparison and corresponding values. In addition to comparing the selling price of properties we view each property's unique characteristics; the differences as well as the similarities to arrive at a fair market value for a particular property. Today properties are assessed at market value as of a specific point in time or "base date."

The past several years have posed unique challenges to real estate practitioners. Turning around a troubled property ranks among the greatest challenges that a real estate professional will encounter in their career. While there is no one-size-fits-all template for troubled properties or working as a consultant, we must be prepared to identify and provide solutions for some of the most common property challenges.

Regardless of your skill level, real estate professionals will need to work together in all key areas when working toward the end goal—turning around a troubled asset and completing a sales transaction.

Real estate represents a significant portion of most people's wealth, and this is especially true for many homeowners in the United States. The average American has nearly one-third of his or her net worth tied up in real estate, translating to a valuation of nearly \$20 trillion dollars for the entire market.

Basis for Property Evaluation

In developing a real property evaluation you must collect, verify, and analyze all information necessary for credible value results and you must analyze selected comparable sales data as available to indicate a value conclusion.

What Influences Property Value?

What is the difference between price and value?

Price: Price relates to the actual number of dollars a commodity or service brings when it is sold. Price is therefore a fact and not a theoretical concept.

Value: Value relates to the worth of a commodity. This is more of a theoretical concept rather than an actual fact. The value would be an estimate.

What is an opinion? A view or judgment formed about something, based on facts or knowledge.

“Market Value” means: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller.

What does it mean to be on the market and in the market?

Characteristics of Market Value

Properties must be assessed at market value based on the day of report. Market value is widely accepted for the following reasons:

- It is easily understood by most property owners
- It is a transparent process, allowing property owners to test fairness
- It is objectively determined and fairly applied to property owners

Market value is the amount of money that probably would be arrived at through fair negotiations between a willing buyer and a willing seller. The following characteristics of market value should be noted:

- Is the most probable price, not the highest, lowest or average price
- Is expressed in terms of money
- Implies a reasonable time to be exposed to the market
- Implies that both the buyer and seller are informed of the property usage
- Assumes an “arm’s length” transaction in the open market
- Assumes a willing buyer and a willing seller with no advantage being taken by either buyer or seller
- Recognizes both the present use and the potential use of the property

How is market value determined?

When establishing the market value for a particular property you will conduct an onsite inspection and use the same characteristics as a purchaser.

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, patio, deck, etc.
- **Internal characteristics** - size and number of rooms, construction quality, appliance condition, demonstrated "pride of ownership", heating type, energy efficiency, basement, garage, 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, view, available services, etc.

Area Market Conditions

Real estate professionals are in the field every day and they know the local housing market better than the people who work in it on a regular basis.

Comments about the local market add to the quality of the market value. When was the last time that you drove around your community?

Keep In Mind

- Markets are seldom all up or all down
- Most markets have general trends, but on any given day, there will be evidence of values increasing, decreasing, and/or remaining stable
- In some areas, it may be difficult to find any evidence of a trend or even any change
- Analysis performed in a market is not transferable to another market nor is it likely it will have a very long shelf life
- Market condition is local and specific surrounding the subject property

Think About the Parameters That Define the Market

- Current market condition, i.e. days on the market, number of active listings, local statistics in bankruptcies, loan defaults, unemployment, high vacancy rates in commercial, property value loss and over supply of inventory contributes to a specific market
- Prices in the subject's market. Find out if they are changing and in which direction
- Search criteria must be defined for comparable properties
- The analysis should be done with properties that would compete for the same buyers if the subject and the comparable were both on the market at the same time
- Review sales, listings, expired, withdrawn in three, six-month and 12 month widows
- Look at all selected comps activity for the last 12-24 months, i.e. true days on the market
- Examine the range of values in the neighborhood
- How many solds are there in the market going back 3 months, 6 months or 12 months?
- How many listings does the market currently have?
- Does the market have any listings with contingent contracts or pending contracts illustrating a stable market?

Declining Market Value

A declining market is generally characterized by few transactions and falling values. Declining markets present valuation challenges because there are fewer transactions available to analyze as comparables (“comps”) in the sales comparison approach or to support an estimate of external obsolescence in the cost approach. In a declining market, transactions used in an appraisal assignment require adjustments for changes in market conditions, but such adjustments are difficult to support without current transactions. Also, transactions that do occur often do so under conditions that do not align with the conditions of the value definition applicable to the assignment.

Property Condition Challenges - Two Concerns

- Marketability
- Financing

Marketability

Marketability is the probability of selling a particular property at a specified price and specified terms within a selected period of time. When looking at marketability in real estate, it's important to consider the many factors that affect the pricing, marketing and selling a property and how they are determined.

- Curb appeal – physical characteristics of the property
- Utilities – gas, sewer, water
- Property condition – plumbing, heating, electrical, security systems
- Tax valuation
- Incorrect BPOs
- Listed incorrectly, i.e. list price
- Multiple offers – bid war
- Unemployment
- Supply and demand
- Plat, floodplain mapping changes
- Neighborhood character – sewer, streets, properties compatibility with each other
- Community
- Condo C.R.B.
- Transportation, bus, airport
- Jobs, community amenities, retail
- Offices uses, hotels, print shops, restaurants
- Schools, parks, recreation, fire station, movies, grocery shopping, church, work, police station, theater, post office, medical
- Friends and relatives
- New construction
- Absorption rates, vacancy or occupancy rates
- Vandalism
- Squatters
- Non arms-length transaction

Financing

Investors owning mortgages depend on lenders to make underwriting decisions that result in “investment quality” loans; that is, loans for which it has been established that there is a reasonable expectation that the borrower is able and willing to repay the mortgage debt and that the property constitutes sufficient security for the mortgage. In turn, lenders rely on appraisers to provide them with thorough, accurate, and objective appraisal reports that result in reliable opinions of market value so they can make prudent underwriting decisions. The appraisal is used to judge the property's acceptability for the mortgage loan requested in view of its value and marketability. Many factors will disqualify the property from qualifying for financing.

Agents will need to prepare and create a solutions that is acceptable to the lender's underwrite and investor.

- Livability - FHA, VA, USDA, Conventional
- Survey
- Appraisal too low
- Well, septic tank, water quality
- Infestation, i.e. termites

- Safety issues, railing, deck broken windows
- Faulty, defective and/or deficiencies with mechanical systems, i.e. electrical, plumbing, heating
- Leaks, i.e. roof, under kitchen cabinets
- Electric plates missing
- Light fixtures missing
- Roof condition survey or sidewall leakage
- Basement, i.e. water or moisture
- Evidence of possible structure failure, i.e. settlement or bulging foundation wall
- Inadequate domestic water pressure or drainage problems
- Defective wood, lead based paint on homes built before 1978, asbestos, mold, mildew
- Missing smoke alarms
- City and county building, housing, maintenance code violations
- Flooring deficiencies/problems
- Appliances deficiencies/problems
- Illegal room additions
- Title
- City and county taxes and assessments
- Condo and HOA issues
- Property involved in a lawsuit
- Loan not saleable on the secondary market
- Mortgage insurance
- Financial assistance funds are available on a first come, first serve basis
- Buyers credit profile changes from time of application
- Interest rate or credit policy change

The challenge of these issues is they are at the discrepancy of the underwriter and/or appraiser. There is no black and white answer as to what will be in question.

Property Condition Report

The Property Condition Report is a due diligence tool that helps agents, buyers and lenders of real estate to understand the condition of the asset.

Purpose

- Identify significant defects, deficiencies, items of deferred maintenance and housing code violations
- Prepare estimated costs to remedy the physical deficiencies
- Offer financing options, i.e. buy and repair programs, FHA 203(k) Streamline
- Home Warranty
- Insurance

The most important section of the Property Condition Report is the Immediate Repairs.

Repairs

- Cosmetic repairs are not required; however, they are to be considered in the overall condition rating and valuation of the property

- Required repairs will be limited to necessary requirements i.e. anything that affects the livability of the home

Resources

- HUD Minimum Property Standards (MPS)
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/ramh/mps/mhsmpp
- VA Property Eligibility, Minimum Property Requirements
http://www.benefits.va.gov/warms/pam26_7.asp
- USDA – Property Requirements
<http://www.rurdev.usda.gov/SupportDocuments/CA-SFH-GRHPropertyReq.pdf>
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

Home Inspections

Much has been written of the value a home inspection provides. While an inspection prepared for a seller will not be a substitute for a buyer's inspection, it nevertheless serves a useful purpose -- alerting the seller to potential conditions that could alter or delay a sale. A professional home inspector is trained to notice what most people are not trained to see. An inspector serves as a detective, looking for existing or potential problems. An objective, realistic evaluation of the property's condition will be of great assistance when placing it on the market or completing a purchase. Knowing what objections, if any, are likely to be raised in advance will help you deal with them in a way that keeps the sale moving along smoothly. Even if they are not things the seller is expected to repair, at least you will have foreknowledge of any potential problems.

Each seller today will have their own timeline regarding an inspection period. It is important to review the seller's addendum for the policy and procedures regarding a home inspection. Many sellers state the purpose for a home inspection is to identify major defects only. Any conditions that affect the health and safety of others must be addressed.

Make Four Lists for Repair Costs

- One with all of the obvious cosmetic repairs such as wall damage, carpet, paints, etc.
- The second list of all repairs that you cannot see with their naked eye (i.e.: roof and water damage, faulty plumbing or electrical fixtures, pests, mold, etc.
- Deferred maintenance
- Safety and health - livability

Big Appraisal Changes

Appraisals continue to be the knothole in a lot of real estate transactions. If you've ever had one come in low, then you know how frustrating it can be to look at the comparable sales and try to make sense of how the appraiser came up with *that* value. Underwriters and investors struggle to make sense of the hodgepodge of commentary and adjustments on appraisals as well.

In an attempt to provide consistency and accuracy to the appraisal process, Fannie Mae and Freddie Mac have implemented a **Uniform Appraisal Dataset (UAD)**, on all appraisals completed on or after September 1, 2011. FHA has issued guidance that they will follow suit as well.

This new rule requires appraisals to be done in specific ways if the loan is to be sold to Fannie Mae or Freddie Mac. The goal is to standardize the reports so they are consistent between appraisers and market areas. It requires new software, new coding, and new data to be collected.

Key Changes to Appraisals

Standardized Descriptions of Property - Today, one appraiser might input “brick” for a home’s condition and another may write “average.” Hardly apples to apples. The UAD requires standard descriptions for a property’s condition, quality, view, and location:

Examples:

- Condition and quality will be scored on a scale of 1 to 6 (C1-C6 and Q1-Q6) with 1 being the best.
- Property views/location will use standard codes of A, N, or B – adverse, neutral or beneficial. A further list of codes provides more information, such as **Mtn** = Mountain or **BsyRd** = Busy Road.

Numeric Data Inputs - Dates, dollar amounts, number of rooms, lot size must be entered in specific ways.

- For example, appraisers that describe a bath and a half as 1 1/2 must now input it as 1.1... 1 full and 1 half. Two and a half baths will now be 2.2... two full and two half baths.
- Lot sizes below one acre must be converted to square feet

Offering Price - The original offering price and history of all price changes must be reported.

Sale Type - Sale type must now be reported and the allowable choices are: REO Sale, Short Sale, Court Ordered Sale, Estate Sale, Relocation Sale, Non-arm’s Length Sale, and Arm’s Length Sale.

Days On the Market - Days on market (DOM) is now defined as the total number of continuous days. DOM is required for the subject and the comparables. So even if it is taken off the market for a short while and then relisted, the appraiser will have to count all of the days it has been listed.

Financial Assistance - All financial assistance must be reported. Financial assistance is now defined as: “Financial assistance or concessions paid by any party on behalf of the borrower include both monetary and non-monetary items, including below-market-rate mortgage financing, gifts of personal property, payment of property taxes and/or HOA dues for a period of time, etc.”

Property View - A view rating and view factor must be assigned to all sites. The allowed rating choices are: Neutral, Beneficial or Adverse. There are 12 established view factors which include water view, golf course view, industrial view, power lines, etc.

Property Style - Appraisers must use appropriate architectural design type indicators such as “Ranch,” “Colonial,” “Rambler,” “Farmhouse,” etc. Descriptions such as one story, one-and-one-half story and two stories are no longer acceptable.

Condition of the Subject Property - An overall condition rating must be assigned from the predefined condition categories provided. The appraiser must also report any “material work” done to the kitchen and bathrooms in the last 15 years. The work must be categorized as “not updated,” “updated” or “renovated.” Specific definitions are provided for each of these terms. The time frames of all “material work” done must be provided in the following intervals: less than one year, one to five years, six to ten years, eleven to fifteen years or time frame unknown.

The standardized “Not Updated,” “Updated” and “Remodeled” definitions as well as the condition ratings will be used to describe the condition of the property.

Sale Date of Comps - The appraiser must now report the contract date as well as the closing date of all comps.

Quality of Construction - *This is one of the most significant changes being made!* The appraiser must report a quality of construction rating of the subject and all comps from a list of six predefined quality levels.

Basement and Finished Rooms below Grade - The total square footage of below-grade improvements (unfinished basement) must be reported. The finished square footage below grade must be reported. Percentages are not acceptable.

The access to the basement must be reported as either “Walk out,” “Walk up” or “Interior only.” The number and type of finished basement rooms must be reported. The allowable room types are “Recreation Room,” “Bedroom,” “Bathroom” or “Other.”

AMC Reporting - The appraiser is now required to report the name of the Appraisal Management Company involved in the assignment.

What can real estate professionals do to help?

A key thing is to include necessary information in your property listings to save appraisers from spending time hunting it down themselves.

Your class today is sponsored by:



Good luck assisting your buyers in creating the home of their dreams!

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Builder's Mission:

Builder History and Awards:

Builder Products and Upgrades:

Builder Community Inventory:

The Builder and Community Website:

Standard Home Features:

Community Amenities:

Warranty Description:

HOA Description:

Preview the Model Home and Community

Builder's Community Representative Contact Information:

Special Financing:

Seller Concessions:

Selling Commission and Bonus:

Community Price Range:

Neighborhood Amenities:

Lots, Under Construction, Finished Homes:

Timeline to Closing:

