

### Learning Objectives

At the conclusion of this Module, you will be able to:

- ▶ Recognize appropriate criteria, resources, and guidance in choosing comparables
- ▶ Identify causes of imperfect information and its consequences with respect to pricing properties
- ▶ Use appropriate comparables in a CMA

A critical component of preparing a CMA is selecting appropriate comparables. This Module looks at characteristics and criteria you will use to match comparables as closely as possible with the subject property. We will consider Fannie Mae guidance on selecting comparables in particular. Module 2 also covers both roadblocks to and tools for identifying comparables.

### The Goal: Optimal Similarity to the Subject

The general parameters for choosing comparables are determined by the subject home. The subject's number of bedrooms and bathrooms, the size of its living space and lot, the neighborhood and school district(s) in which it is located, its age and condition—all these characteristics form the parameters for choosing comparables.

Of course, a comparable is never perfectly similar to the subject. But a central goal in preparing a CMA is identifying comparables that are as similar as possible—physically, functionally, and geographically—to the subject. The more similar the comparable, the fewer adjustments you will need to make and the more accurately you can determine the value of the subject and price it correctly.

### Characteristics of Comparables

Agents preparing CMAs must consider a variety of characteristics in identifying potential comparables, including:

- ▶ Location
- ▶ Date of sale of the property
- ▶ Size
- ▶ Floor plan or style
- ▶ Amenities (e.g., pool, security system, fenced yard)
- ▶ Age

- ▶ Number of bedrooms and baths
- ▶ Garage size
- ▶ Improvements (e.g., additions, new roof, new appliances, cosmetics)
- ▶ Potential negatives (e.g., busy street, near business/industrial district)

Of these, location, date of sale, and size are the most important.

Agents also must aim for an adequate number of comparables to consider in forming their price opinion. Let's look at several of these characteristics in more detail.

### Location

Comparables should be as geographically similar to the subject as possible. This might seem obvious, but in practice location similarity can vary widely:

- ▶ In a densely populated urban area, location similarity might mean that all the comparables for a high-rise condominium unit should come from the same building.
- ▶ In a suburban neighborhood, location similarity might mean that comparables should be in the same development as the subject, if possible, or at least within a mile of it.
- ▶ In an expansive, sparsely populated rural community, location similarity might mean that comparables can occur anywhere within a township border—or even beyond.

Other features of location (e.g., proximity to a particular school district, public transportation, or an industrial area) can qualify or disqualify a property as being similar to the subject.

***Following are guidelines to follow when selecting comparables with respect to the location of the subject property:***

#### SUBURBAN/SMALL TOWN

- ▶ Same subdivision
- ▶ Same neighborhood
- ▶ Same school district, if schools are a driving force in the market
- ▶ One-mile radius
- ▶ Same complex for multifamily homes

### CITY/URBAN

- ▶ Condominium: same building
- ▶ Single-family home:
  - ▲ One-half mile radius
  - ▲ Same neighborhood

### RURAL

- ▶ Five-mile radius
- ▶ Same high school, if necessary

Agents sometimes expand the location in which they are searching for comparables when they have difficulty finding properties that match the subject in terms of other criteria.

### Date of Sale

A comparable should reflect a recent date of sale relative to the time of the subject CMA. A general guideline is that a comparable's date of sale should fall within 90 days of CMA research. Markets can change rapidly, and an interval of longer than 90 days might mean you are no longer comparing "apples to apples."

Here are guidelines to follow when selecting comparables with respect to the date of sale, depending on the market.

### STABLE MARKET

- ▶ No more than a 3 percent change in price in the last six months
- ▶ Comparables no more than six months old

### CHANGING MARKET

- ▶ More than a 3 percent appreciation or depreciation in the last six months
- ▶ Comparables no more than three months old

The 90-day guideline mentioned earlier is sometimes shifted to a longer interval for a variety of reasons. For example, in slow markets, finding an adequate number of similar properties that have sold within 90 days can be difficult. When agents are unable to identify comparables that are sufficiently similar in terms of function, size, amenities, or location, they might expand the date of sale interval to include more candidates for comparables. At the outside, agents usually try to choose comparables with sales dates within six months of the subject CMA.

If a comparable is more than six months old, an adjustment for time will probably need to be made. Depending on the market, the price of homes nine months or a year ago may be very different from the price today. This adjustment can be made by looking at the median sales price of properties at the time the comparable sold and the median price today. The percentage difference will be the adjustment. Adjustments will be covered in more detail in Module 3.

### Size

Comparables should be the same size, or close to the same size, as the subject, in terms of both living area and lot size.

### Micro Markets

Some housing markets are so specific that they are referred to as micro markets. For example, in Sullivan County, Pennsylvania (population 6,000 in 2017), there is a remote, upscale, second-home town called Eagles Mere that is a micro market. Micro markets exist in every marketplace—you can probably think of a similar example in or near the area where you work.

In the case of a micro market, expanding the area in which to look for comparables won't work; the micro market is too specific and narrowly defined. Instead, it is necessary to use comps from the same town, no matter how old they are, and adjust them for time.

### Amenities

Comparables should reflect the amenities or features of the subject as closely as possible. This is a broad category for comparing properties—everything from lofts to finished basements, soaker tubs to swimming pools, fireplaces to patios, and security systems to solar panels. Finding a comparable that exactly matches the subject in terms of amenities is unlikely—again, the goal is to identify comparables that are as similar as possible.

Some amenities are sensitive to changing demands and tastes, and their value to typical buyers varies from market to market. When you consider the importance of an amenity in pricing a property, you must think about whether it is “hot or not.”

### Improvements

Comparables' improvements should match the subject's as closely as possible. Improvements can range from required maintenance to style updates to additions. If the subject has a brand-new kitchen and the only comparables you can find have 20-year-old kitchens, you will need to adjust the comparables.

## 2. Choosing Appropriate Comparables

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An improvement might be an over-improvement, depending on the market where it is located and the probable buyer. For example, expanding a one-car garage to a three-car garage could be an improvement in a suburban neighborhood populated by families with growing children. Or it could be an over-improvement in an urban center that is well-served by public transportation and populated by young singles or couples who prefer not to own automobiles.

### ***Exercise 2.1:***

#### ***Amenities and Improvements in Your Market***

- 1. For your market, what are three amenities or improvements that are trending upward in popularity?**

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- 2. For your market, what are three amenities or improvements that were once popular but are now in decline?**

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