

Fair Market Value Is A Guess?

Contributed by Steve Gillman
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What is fair market value? A look at how to put a price on real estate.

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What is the fair market value of your home? It is what your house will sell for with reasonable marketing efforts, in a reasonable amount of time. Of course, that definition probably isn't enough. What you really want to know is how to estimate that value ahead of time.

{bot_wrgoogle}You don't want to just guess. Even an "educated guess" from looking around at what others are asking can be substantially off. The result could be either selling your home too cheap or asking too much. The latter may seem like a lesser problem, but pricing too high can have serious consequences. I once helped a man sell his home after it sat unsold for two years. He had priced it too high, and the cost of holding it, heating it (it was empty) and fixing the deterioration costs him tens of thousands of dollars.

You don't want to look at what others are asking in any case, because that doesn't tell you what they are actually selling for. This is especially important now that prices are dropping in many parts of the country. Perhaps houses near you were selling at their asking prices a couple years ago, but they are now regularly selling for 10% less than the asking price.

Again, this is an important point, because you don't want to price your home too high. Overpricing has even worse consequences during a general decline in home values. Imagine what happens if values are dropping while your overpriced home sits for a year. By the time you realize your mistake, you may have to sell for \$10,000 less than you could have gotten a year earlier.

Determining Fair Market Value

To begin with, forget the word "fair" altogether. Fair can mean different things to different people, but it has no real meaning in real estate valuation. You can call it fair or unfair, but the buyers will pay what they will pay, and that what determines what you can sell your home for.

This is called "market value," but you can forget the "market" part as well, if you want, because what other value could mean anything? An "imagined value?" A "if-times-were-better-value?" A "what-it's-worth-to-me value?" If you can get buyers to pay according to those kinds of value instead of what it is worth to them, you will have become the world's best salesman.

So how do you know what your home is worth to those buyers before they buy it? You look at other houses they have bought. Specifically, you look at houses near yours (within a half-mile, but the closer the better) that have sold recently (the last six months), and are similar to yours (as much as possible). Several of these "comparable" sales will give you an idea of what your home should sell for.

Of course, it will likely be impossible to find houses that recently sold nearby which are exactly like yours. This means you have to adjust their sales prices to what they would have been if they were like yours. For example, you add \$20,000 to the sales price of a comparable that doesn't have a garage if yours does have one (assuming that's the market value of a garage). You subtract \$5,000 for the oversized lot that a home has if your's doesn't have it as well.

Essentially you are adjusting the sales prices of those other sold homes to see what they would have sold for if they were just like yours. It isn't as complicated as it sounds, but it isn't as accurate as we would like either. If you don't want to learn how to do it, you can always get a real estate agent to do it for you.

Just remember that a fair market value may or may not seem fair to you. Also, the estimate of it may or may not be close to the true sales price. It would be nice to be more certain about these things, but in the end, the most we can hope for is

a "best guess."

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