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REAL ESTATE MYTHS OR NOT?

BY

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MYTH OR FACT- Over the past few months there have been articles, books and news reports about the myths of real estate. It appears that most myths or self-professed truths by some guru are the reality of real estate and the real estate market and market places. The only way to cover this topic is to write another book and I don't have the energy to do that, so we'll cover most recognized myths.

Let's start with how people buy residential properties since that's the largest part of the real estate market in total dollars. This typically involves the question of hiring a real estate agent.

Myth or Truth—Real Estate Agents are like Used Car Salesmen:

Here's a statistics for you. Various consumer surveys are inter-supportive that as far as perception that real estate agents fall between personal injury lawyers and used car salesmen. STOP! That statement is unfair because it presents another perception that personal injury lawyers and used car salesmen are unreliable, liars, thieves, etc. I know some of both and they are not what the common perception is. The public is gullible and hears one negative snippet and everyone in the same business is then rotten. The reality is that there are good and bad of all kind. How do I know that is correct; because my mother drilled that into me since is I was 5 years old, and Mom wouldn't lie! And, it's also true.

Real estate agents are necessary for the control of a sale. They have been the unsung heroes of helping families find happiness. Are they paid? Yes. Many think too much. Think of this the average salary of a real estate agent in the U.S. is $36,000 per year. From that they pay for their own car, gas and upkeep; pay for their own health insurance and get no paid holidays or vacations. Are there good ones and not good ones; certainly, just as in any business or profession. The problem with the perception is that the buying public only sees that multi thousand dollar payout on their closing sheet and ask, all that for riding us around and walking through a house and telling us that "this is the kitchen". Now, Realtors, do you understand the perception? Overall is the perception a myth or truth. It's a myth. Realtors serve an excellent purpose and should not be perceived as charlatans.

Myth or Truth— Real Estate Agents try to drive up home prices just to increase their commission.

Real estate agents are responsible for trying to get the highest price for a listing, however, without distorting facts creating an unrealistic hype. Having testified in a case against a Realtor, I can say unequivocally that the courts frown upon that type profiteering. Realtors cannot proffer over-pricing at the expense of buyers. Buyer Brokers and Seller Brokers are a good thing.

So, its true they seek the highest price but not at the expense of buyers.

Courtesy of

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Myth –Truth-

Market Value does not equate to Replacement Cost- This is yeah and nay. The Cost Approach requires the replacement cost new of a structure be calculated, most often with a cost manual. This calculation alone does not necessarily equate to Market Value.

Cost Approach provides the upper limit of value- This is false. When properly completed the Cost Approach provides an indication of market value from a different perspective. The replacement cost of the improvement must be depreciated and a calculated site value must be added along with site improvements which then provide an indication of market value. The result of this process does not indicate an upper limit of value, as the result may be lower than that of the other two approaches to value.

Houses appreciate in value- In the case of classic housing this may be true, but for everyday America it is not true. Houses depreciate in value due to age, lack of maintenance, lack of remodeling providing the contemporary demands of the market. Houses also lose value if their overall appearance or room configuration is no longer acceptable to the appropriate market. The site value is the driving force of property value. Site value reflects the demands of the market (people). Values will rise and fall based on external forces, i.e., change of neighborhood character, high interest rates, tight lending guidelines, employment, etc. When the statement, housing prices are rising, what is really said is, "site values are rising."

When there is a noticed rise in sale prices, the reflecting percentage should be applied to each house in the area.- The answer is maybe. The affectation would impact quite likely the site value of the other properties but not the dwelling may not be acceptable to the appropriate market which may preclude appreciation or lessen the property value.

Appraisers responsibility to an appraisal report ends when "function or objective" of the report is completed-

No, appraisers are responsible for their reports virtually forever. When a report is found deficient or fraudulent by any party who relied upon it, the appraisers can be held responsible. Circumstance drives that continuum of responsibility.

Residential Single Unit appraisals do not need an Income Approach- This is a false myth. It is understandable why appraisers resist doing income approaches on single residences. It is extra work. However, the Income Approach is one of the three traditional approaches to value. A thorough investigation of rentals for similar property will provide necessary data for an appraiser to complete this approach.

The Cost Approach is not necessary for older houses- Too often appraisers omit the Cost Approach using standard "get out verbiage" and similarly omit the Income Approach as stated above. The appraisal then relies on the Sales Comparison Approach or Market Approach solely. This provides no support for the final value opinion. Virtually, there are no improved properties that an appraiser cannot employ all three valuation approaches. An appraisal should minimally have two approaches to value in order to demonstrate inter-support via the both approaches.

The Appraiser owns the appraisal report- False. The appraisers is responsible for the appraisal but the ownership is that who ordered and / paid for the appraisal. For lending, the appraisal is owned by the lender, not the applicant. However, every applicant is entitle to a copy of the appraisal; and, that applicant has as much right to challenge that appraisal as does the lender.

An appraiser can appraise any type property- It's a myth. Appraisers have the primary responsibility of appraising properties which she / he have the legal and experience qualifications. A Certified General Appraiser has the legal right to appraise all type properties and all sizes, etc. However, each must be able to prove and demonstrate through successful appraisals that his / her experience level connotes the ability factor which is critical.

All appraisers are created equal- Myth. Too often appraisers unaccustomed to performing appraisals for reasons that may require testimony, accept the assignment. They are learning at the expense of the public. Their reports will reflect a "lending" mentality which is unacceptable for serious matters the client may be facing.