Chapter 39 Summary

CMA Mechanics
Illinois Broker Preliminary

**Appraisal** seeks opinion of value as of a specific date; performed by licensed appraiser, most often for a lender. The appraiser’s tasks include:

- Preparing reports that define methodology and estimate value;
- Compute final estimate of value;
- Search public records for documentation;
- Evaluate neighborhoods.

Appraisals of property for sale **assume** cash transaction; arms'-length transaction; no pressure to conclude the transaction; reasonable marketing time; buyer and seller well-informed.

**Comparative market analysis** (CMA) seeks to provide sales and listing price information about similar properties to help seller choose a listing price; performed by listing agent for seller.

The CMA closely resembles the Sales Comparison Approach of the appraiser.

**Sales comparison (market data) approach:**

- Based on the principle of *substitution*;
- compares the property being appraised with recently sold comparable properties;
- Most reliable for single-family homes; used in a CMA.

**Cost (summation) approach:**

- *Replacement cost or reproduction cost*;
- For properties built recently where actual costs are known;
- For special purpose buildings when data on income is not available.

**Income (capitalization) approach:**

- Estimates the value of properties that produce income;
- Assumes that an investor will purchase a property based on the future income stream the property will produce – the principle of *anticipation*;

**Steps in the Sales Comparison Approach**

- Comparables are identified;
- Adjustments are made to comparables to account for differences with the subject;
- Comparables are weighted or ranked in making a final value estimate.
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CMA process similar, but:

- Considers less information;
- May define comparables more loosely;
- Not as precise or extensive in making adjustments;
- Not aiming at a market value so much as a range of listing and selling prices;
- Not impartial and not subject to appraisal standards.

The CMA Process:

Step 1 - Collect and Analyze Property Information

- Seller's property information includes: property condition; condition of surrounding properties; property conformity; size and style; amenities; zoning, likelihood of finding comparables

Step 2 - Select Comparables

- Chosen from sold, pending sales, actively listed, expired listings; minimum of three is usual

Step 3 - Compare and Adjust

- Comparing each comparable with the subject, small adjustments for location, physical characteristics, sale date, financing terms are made in the sale price or listing price of the comparable.

Step 4 - Suggest Range and Price

- Adjusted market values of comparables are used to suggest a listing range for seller to choose from.