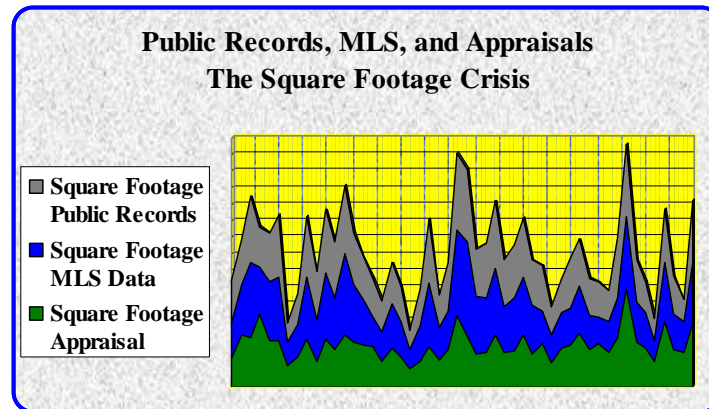


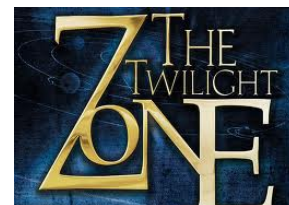
Square Footage - Out of Control



Three different information sources, three different square footage totals. Whether you're refinancing or buying a home, if one of these inconsistent totals is used in your appraisal as a comparable sale, it can significantly change your property value. These differences in square footage create very real differences in value and happen much more frequently than most people imagine. From large metropolitan areas to small rural communities, this misinformation is changing people's financial futures. This problem is rarely discussed and the real estate industry works hard to keep it that way. Without an easy solution, square footage is often considered a topic best left alone.

Real estate agents are creating new ways to avoid the square footage discussion altogether. More and more often, all across the country, agents are choosing to use the square footage information listed in public records for their MLS listings; instead of measuring the property themselves or having someone else take the measurements for them. Even some appraisers are now including their own sketch of the property in their reports, but including a disclaimer that they are using public records as the main source of square footage details for the subject property and all comparable sales. Their logic is simple. By providing information this way, they provide comparisons based on what they perceive to be *consistent* measurements; all taken by the same methodology or *standard*, and provided exclusively by local tax departments. Since this public records database is often providing their main information source (with less dependence on MLS for sqft info), these appraisers believe using this single source for property information will offer them more accurate comparisons.

Welcome to the twilight zone!



An already bad situation is about to get worse, much worse. Over 62% of all square footage information listed in public records contains square footage errors that are significant enough to change the property's value. Think about that... If these current trends continue, the real estate, appraisal, and mortgage industries are all in for a new level of *information crisis*.

Let's consider an average home that has just been sold for \$250,000. The "sold" data listed in MLS shows this dwelling with 2,010 square feet of *finished* living area. The second total, from the local tax assessor's office, shows the same house with 2,380 square feet of *finished* living space. The final calculation is provided by the local appraisal company who measured the house. Their total shows the house with much less square footage, with a total of 1,758. So, using the basic formula and principles known to every broker and home buyer/seller (the price-per-square-foot), the value of this home may appear as follows:

House "A" Sold for \$250,000

Square Footage Listed as:

MLS	2,010 sq ft
Tax Department	2,380 sq ft
The Appraiser	1,758 sq ft



Based on the above totals, the Price-Per-Square-Foot of this home:

1. **MLS** **\$124.38**
2. **Public Records** **\$105.04**
3. **Appraisal** **\$142.21**

$$\$250,000 \text{ div by } 2,010 \text{ sq ft} = \$124.38 \text{ psf}$$

If an agent wanted to calculate the value of a new listing, they might apply the following calculations. House "B" is 2,150 sqft, based on "A's" value of \$124.38 psf. "B's" value could be up to \$80,000 different depending on which square footage total they select. If this was your house and you were getting ready to sell (and this was your \$80,000), would the square footage total matter?

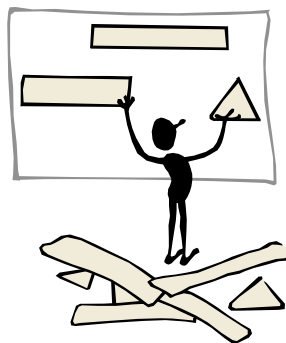
1. \$124.38 psf equals a total value of **\$267,417**
2. \$105.04 psf equals a total value of **\$225,836**
3. \$142.21 psf equals a total value of **\$305,751**

Based on a square footage total of 2,150, the price may vary as shown above.



Based solely on the *size*, with each different number taken from what's considered a *reliable* source, the price difference is **\$79,915.**

Square footage errors can totally change suggested listing prices or appraisal values. That difference is going to make a huge difference in someone's budget. If an agent prices a home based on the square footage total listed in public records, and then the buyer has the home appraised and discovers it is actually 200 square feet less (or more), everything changes. All the trust is gone, creating a stressful situation all the way through closing; if they are lucky enough to make it that far. From *contract* to *closing* is a tightrope under normal circumstances; adding fear and mistrust to this situation is NOT good for anyone!



A new study completed in over twenty states, reveals extreme errors in the square footage information reported nationwide through the private real estate information system; the "Multiple Listing Service" or MLS®. It also reveals even larger margins of error contained in the national "Public Records" system. Over 14% of MLS listings reflected the *exact* square footage total listed in public records. Often seen as a perfect solution for an *Agent*; no measuring, no liability, just copy and paste data. This dangerous trend may soon change based on recent court decisions (Texas, Oklahoma, Arizona) that hold agents (and appraisers) accountable for the square footage totals they provide.

As consumers, the media, and the legal community become aware of these new precedents, the square footage issue may become much more commonplace. Currently, there are no nationally mandated, nationally recommended, or clearly definable and comprehensive square footage *guidelines* for measuring residential property. Agents and appraisers are free to use whichever square footage total works best for their intended purpose and that they deem most appropriate.



And, if anyone comes back and reviews their CMA or appraisal information, this data can come from any of these three separate sources and still be considered a "reliable" data source; or the *best available* information. After studying square footage (public records, MLS, AVM's, and residential appraisals) for over eight years, this study shows that in over 87% of all "closed" sales confirmed in MLS; the square footage information listed is different from the square footage totals provided within the appraisal report for the same property. The square footage errors often exceed 50%. Using the MLS or tax department square footage when creating a value for another property, may create extreme over and under estimates of value. Other things such as a 2,800 sqft home paying taxes on a 4,200 sqft home (or the opposite) can influence tax revenues for the county and local municipalities. Based on our research, tax revenues could be increased between 3-5% by simply basing assessed values on accurate square footage details. These mistakes happen more than you might imagine. The only time MLS and public records coincided, was when the listing *Agent* simply used the exact square footage total available from the county tax department, often without disclosing that fact to the seller or potential buyers.

In the last ten years, the use of public records within the real estate industry has skyrocketed. The fear of liability has drawn entire states away from reporting this critical information; the square footage information which provides the “currency” of real estate and the foundation of comparison and valuation. Regardless of how real estate agents handle the square footage issue, appraisers are required by the most often used (federally mandated) appraisal form, to list a specific square footage number for the *subject* property and each *comparable* sale (no ranges). This is not an optional field, but a specific, mandatory number requirement.

Without listing *Agents* reporting this valuable information, it leaves appraisers (and agents creating any CMA) with no alternative but to use the information available in public records; those same public records that consistently show large errors in square footage. Created from "exterior only" inspections, square footage is the only detail listed in public records which is not based on a “verifiable fact.” The dwelling's size information is created as an "estimate of size for use within the assessor's office only." It was never designed or intended to be used as a detailed source for square footage comparisons. Ask any property assessor. While they do a great job providing mass appraisals, they have no stake (or liability) in the real estate information system.

These mistakes affect property values more than most people realize and the real estate industry generally doesn't want to discuss this issue. A little *mystery* surrounding this topic keeps is just under the radar. However, “the most trusted source of real estate information in the world” is often not the source of information at all. The facts of the real estate business and day to day operations are that most people look at two numbers first. **On any closed sale, most brokers' first instinct is to look at the sales price and the size.** This simple calculation (the “price-per-square-foot”) is used to determine the value of homes all across the country. The real estate valuation process is certainly not that simple, but this very basic formula provides a logical starting point to estimate value. Right or wrong, it is the way many real estate professionals (and buyers and sellers) determine value.

You always hear about “comp checks.” Everyone talks about checking the *comps*, like there are always at least three properties identical to yours (which sold in the last few months) that you can use to easily figure out what your home should be worth. In some urban markets, there are many sales and a large selection of *comparable* properties. However, in much of the country, rarely are there perfect “comps” and it takes an experienced professional to understand market fluctuations, and how some features add more value than others. The valuation of real estate is a learning process which never stops. It is very local in nature and if you are gone for any period of time, the market may have totally changed. ***Value is always locally defined and is constantly changing.***



Real estate and pricing homes requires a full time investment and is not for the faint of heart. No doubt, real estate can be an emotional business. Your clients are emotional about making such a large financial decision and everyone worries if they got the best deal possible. Normal, friendly, logical people can change from Jekyll to Hyde in an instant; hearing a counter offer, learning about the home inspection report, seeing the total closing costs, or one of a hundred other potential pitfalls that await through each transaction. This is NOT the time for any surprises.

Much like the appraisal and real estate process of calculating value, it largely depends on *opinion*. If three real estate professionals create a CMA (Competitive Market Analysis) on the same property, you may get three totally different opinions of value. And, each broker's opinion of value is absolutely convinced their *price* is right. **Determining the price of a home is an art** and everybody feels very strongly that they know what value is the best answer. Depending on which "size" a broker (or appraiser) uses, the home's value can quickly change. If most people use this simple "price-per-square-foot" formula as part of their valuation thought process, the *size* of the property plays a significant role in developing any value. Just watch any HGTV® show and you will see this simple, yet extremely powerful formula (Price-Per-Square-Foot) at work. It is often one of the first items discussed in determining property value.

Let's say there's a new sale in your neighborhood and it's very similar to your home. Just as an example, take that sales price and divide that number by 2,300 square feet; that gives you one estimate of value. If that size is later discovered to be 2,600 sqft, or even 2,400 sqft, the *value* changes as the *square footage* total changes. If the value of a \$250,000 home only changes by \$10,000, percentage-wise that may not be significant. But, if that money belongs to your family, the *size* would certainly matter to you. Write a check for \$10,000 and see how it feels. Write one for \$5,000. It is always important!

The county tax department has no interest in the information system used by the real estate industry. Public records were not designed (and never intended) to be used as a *source* of square footage for the detailed comparison of single-family dwellings. When I asked the head appraiser of a large county tax department about Realtors® and square footage, his response was: "we've got no dog in that hunt." When asked about the accuracy of the square footage information available in public records, local assessors are quick to point out that their data is created through a "mass appraisal" process. It is created *by and for* specific use within the tax assessment process. In most cases, local property assessors are unaware the real estate profession has become so dependent on *their information*. Another experienced assessor commented that "if any agent uses the square footage info *we* provide to figure out property values, someone's in big trouble." So, who's in trouble and what is being done to make the situation better? The real estate, appraisal, mortgage lending, mortgage investors, and the general public is in real trouble; and zero, nada, nothing is currently being done to work on correcting this situation.

If you look at the largest national AVM's (Automated Valuation Models), you can quickly see that they all share one common denominator; the size or square footage information they use to calculate real estate values. They all use the square footage total taken from the local assessor's office. Pull three or four national valuation services and you will discover that they all display the exact same square footage total. Well, what if that total is wrong? Does that mean all the values they calculate are also wrong?

Like much of the real estate industry, *it depends* certainly applies here. And, no one seems to be digging too deep into this topic because it shakes the very foundation of our real estate valuation system. However, if something doesn't change soon, another real estate *crisis* may lie ahead. The *real* real estate crisis (the information crisis) could be solved (or at least greatly improved) simply by standardizing and **mandating** that all listing *Agents* provide the size of every property. No broker has to physically or personally measure any home. They just have to be *responsible* for providing the accurate square footage information for every listing reported to MLS. There are plenty of options to have this information created. However, *Agents* must also have a definitive measurement guideline to follow (and a nationally approved disclosure form) in order for them to provide this information without fear of liability. The *system* will never be perfect, but it can be dramatically improved. Consumers deserve consistency and reliability from the real estate experts, especially in creating a number that influences the value of their home. Size does matter!

There must be one nationally approved and mandated *standard* for measuring a single-family dwelling. It's time for the real estate industry to join the rest of the standardized world; this is the *information age*. Every component of a single-family dwelling is measured by a national or international measurement *standard* (i.e. wood, electrical, plumbing, windows, doors, flooring, etc). However, once combined to create a home, there is no measurement *standard*. It's time for us (the real estate experts) to accept this position of responsibility and move forward towards having every home in America measured by one method, instead of the hodge-podge of methodologies currently in use across the country. Then, we can more accurately compare homes and offer the public reliable, reproducible square footage totals. *Finished* square footage or GLA (gross living area) should mean the same in California as it does in Pennsylvania. One industry, one measurement *standard*.

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