

Module 7 : Valuation Process

- Definition of Valuation, Evaluation and Estimate
- Why evaluations are necessary
- Evaluations as a bargaining chip
- How to take the client along

Topics covered in this module:

- Definition of Valuation, Evaluation and Estimate
- Why evaluations are necessary
- Evaluations as a bargaining chip
- How to take the client along
- Chartered surveyor's valuation opposed to estate agents
- Presenting your valuation

Valuation Process – 5m 27s

7.1 Introduction

Placing a value on a property before you put it on the market is an integral part of being an estate agent.

Before we get down to how one reaches a value for a property, we have to do some hair splitting. There are several terms that people take to mean the same thing, but confusion could arise and you could land up with an unhappy client if you aren't all on the same page. The terms we need to identify and establish the meaning of are: Valuation, Evaluation and Appraisal.

Although these terms are very close in meaning, there are essential differences that are important when it comes to the legalities of being an estate agent.

It is a good idea to get the terms sorted out before going to a client and promising something that you are unable to deliver. It is also wise to clarify the meanings of the words so that you can explain to your client the difference between what you are doing and what a Chartered Surveyor does and why one might be required by the person who purchases the property.

Let's take a look at the differences in these three terms

- **Valuation:** The meaning of the word "valuation" is the establishment of a monetary value without taking into account the prevailing market value. Surveyors look at what it would cost to build the home. In real estate terms, a valuation can only be carried out by a registered surveyor - a member of the Royal Institute of Chartered Surveyors. More about surveyors in a moment.
- **Evaluation:** This term is used interchangeably with Valuation, but strictly speaking, it shouldn't be. To evaluate a property, one would be looking at the premises and its location and giving an opinion on whether it was suitable for a specific buyer's requirements. You are looking at what sort of property it is, not at how much money you could sell it for.
- **Appraisal:** This is what estate agents can do. To appraise a property, you are looking at it with a view to establishing its value as a home and attaching a price to it. You look at the home in relation to its position, prices realised for similar homes in the neighbourhood, its condition and the prevailing property market conditions.

You also look a little further than the immediate surroundings and take into consideration aspects like the proximity of schools, shops, access to major arterial roads and so on. In other words, you are assessing how comfortable it would be to live there and what sort of people it would be best suited

to.

So, effectively, you are looking at the property to see how well maintained it has been and how much you think the seller will be able to realise when he puts it on the market. Note down your observations and communicate to the client once the viewing is over. For example, you may need to suggest a new lick of paint, window cleaning or wood polishing to help the house look its best.

The job you are doing does look at some of the things a surveyor would look at, but you are not looking to pass your opinion off as an expert. You could not be held to account for your findings in a court of law.

Almost 30% of all real estate contracts collapse, so it's best to price the property properly, market it in the best possible way and vet the buyers before you shortlist the most suitable ones.

7.2 Explaining to the Client

During your negotiations with the client, it is a very good practice to make it quite clear that your opinion on what their house will fetch on the market is not the same as the findings of a qualified surveyor.

You should also clarify that the client understands that appointing a surveyor is possible, but that the cost of it will be over and above the commission they will be paying the agency when their house is sold.

Regardless of what you call the appraisal of your clients' houses, just be sure to clarify that you are not acting as a surveyor.

Another point that you must clarify with the seller is that in some cases it may be advisable to bring in a surveyor. This could arise if you think there is structural, flood or some other form of damage to the property which could be problematic for the sale.

If you do suggest that a surveyor is employed, don't make any suggestions. It is far safer to have the official RCIS list of surveyors operating in your area that you can hand to your client. They must select their own surveyor. You don't want to be in the position where the client feels that you and the surveyor acted in concert to reduce the value of his property.

7.3 About Surveyors, Briefly

To become a surveyor a person has to have a degree and be registered with the Royal Institute of Chartered Surveyors.

After graduating, surveyors have to undergo a period of professional development training before the Institute will accept them. Their qualifications and the work they do is directly related to civil engineering.

Qualifying is a long process, but the work they do has direct influence on public health and safety. They are often required to appear as expert witnesses in legal matters relating to building and property disputes.

While they may be able to tell a client what the likely cost will be to repair damage to a building, or what needs to be done to repair a roof, or add another level to a house, current property prices and real estate market conditions are not their area.

7.4 Your Relationship with Your Clients

Being upfront with clients is by far the best policy.

If they understand exactly what you are doing and the purpose of your research, they will be far more inclined to trust your recommendations than if you keep them at arm's length and try to imply that the work you do will obviate the need for a surveyor's report.

The Traps Some People Suspect

The well informed seller will have spent time on the internet trying to work out what their house is worth and how much they are likely to clear once they have paid you your commission. Several of the sites they would have read will have gone into detail on how estate agents set out to crook their clients and the only things they are interested in are quick sales and pocketing as much commission as possible. Go to these sites yourself and study them. You need to know how some of your clients will be thinking and what you need to do about it.

If your initial interview with the client was thorough, you may have picked up what they think of estate agents. In any case, when you reach the stage of working out an estimate of the market value of their house you should lay out your credentials and give them a blow by blow account of how you are going to arrive at your estimate.

Right up front is a good time to mention that you and your agency are members of either the

Independent Network of Estate Agents or the National Association of Estate Agents.

The client must know that you are not going to grab a figure out of thin air and that a fully informed estimate will take a few days. If you are experienced in the suburb that the client lives in, tell him that in spite of your knowledge of the area, you need to check several aspects before you arrive at your estimate.

The traps you will be suspected of trying to spring on the client are overpricing or underpricing the property you want to sell.

Underpricing is something you would allegedly do in order to have a quick sale, pocket your commission and move on to the next house. Overpricing is when you wish to flatter your client and gouge as much commission as you can.

There are agents who practise both these and many other devious tricks.

Neither of these aspects need bother you as long as you are entirely above board with your client.

You can expect that any client will have at least another two agents coming to see the property to give evaluations. If you have done your research properly and made a point of presenting your findings and estimate thoroughly, you will have nothing to worry about.

There is no guarantee that you will get the house for your agency, but if you put everything into the estimate and your client is a contact of reasonably long standing, you will stand a very good chance.

Mud-slinging is Unbecoming

Because there are other agents involved at the early stages of putting a house on the market, the client could try and draw you into a comparison with the other agents. They may mention that there is a discrepancy in the estimates that they do not understand, or that they have a low opinion of another agent, or something of that nature.

Don't get involved. You must remain above making comparisons or mentioning that you have heard that another agent has a dubious record. Your opinion is just that, so keep it to yourself. At best, expressing yourself will not endear you to the client (the other agent might be their brother-in-law) and at worst, the other agent could get to hear about the conversation.

To put an end to the matter, use the opportunity to sing the praises of your agency. The only thing you have to say is that you have no clue how the other agents work, but your agency does X, Y and Z and in your experience, the estimates that you have given in the past have been pretty spot on.

FACT

The average number of properties available per member branch in December 2015 fell to 37 properties; the joint lowest figure for 2015 (joint with September), and almost half the number available in December 2005 when there were an average 72 houses per branch

Source: naea.co.uk

Take a Quick Recap Test

[viralQuiz id=206]

7.5 When to Start a Valuation

As a salesperson, you will appreciate that every interaction you have with your clients is actually part of the sale.

You have to think about the end result all the time and be sure that you are constantly in charge of the sales process.

This is not a devious mindset to adopt. Just remember that sales and marketing are tough areas to be in and there will always be a competitor right behind you and probably one or two ahead of you. Being on top of the sales process is not an attempt to bulldoze your client, it's a way of protecting whatever advantage you have over your competition.

Take this scenario: You have had Mr Jones on your client network list for months. You met him at a school function and have been in touch ever since.

Remember this: He knows what you do. He doesn't know how good you are at it. As far as he can tell, you are a nice enough person and a fellow parent at the local junior school. You still have to

impress him as an estate agent and "show him your stuff".

At a parent-teacher meeting, he mentions that he is going to sell his house and that maybe you should call and arrange an appointment. The next day you do that. The appointment is in three days' time. You have booked a time slot that will leave time for a meeting and a tour of the house.

The agent who sold Mr Jones the house ten years previously is still in business and will therefore have picked up that there is a sale in the offing.

What was your course of action when Mr Jones told you that he is interested in selling? Did you wait until you called about the appointment before starting the valuation process or will you wait until after the appointment before you start?

If you didn't get onto it the moment he mentioned his intentions, you have already lost a lot of ground and are in a very vulnerable position.

Remember that you are in control of marketing property.

Mr Jones must not mention that he is thinking of selling his house and then be allowed to jump into his car and drive away.

Your immediate reaction must be to obtain whatever details about his property that you can from him. If he has the information, you need the basic details to start researching his property on the Land Registry and possibly Hometrack websites.

Don't worry about offending Mr Jones. He will be impressed by instant action.

By the time you meet for the appointment, you want to be well up with information about the property. Mr Jones needs to know that you are in control and that he can leave everything up to you.

Your aim here is to secure a sole agency.

If you are on top of things, and by the time you go into your meeting with Mr Jones you are ready to round off the valuation process and only have a report to complete for your next meeting, you should be in a position of strength in relation to any other agents he may be speaking to in the meantime.

Valuation Report

A property valuation report typically has the following details:

- Name and address of the property
- Type of property, location, structure
- Reason for the valuation (for sale, mortgage or renting out)

- Neighbourhoods and amenities
- Number of floors, bedrooms and bathrooms
- Details of improvements and renovations
- Maintenance level of the property
- Age and future life span of the property
- Details about garage, front or backyards
- Estimated market value of the property
- Photographs of the property

Difference Between Property Cost, Price and Value

Contrary to popular belief, the value of a property may be different to the price that a buyer may be willing to pay and again different from the cost of the property.

The property cost includes construction, improvements/renovations plus land while the price is what the buyer wants to offer or the seller expects to get. At times, an investor may want to create a resort, or spa and this may result in a higher value than the actual market price.

7.6 The Valuation Meeting

When you meet with the client to discuss the sale of his property, you are already in with a chance of securing a mandate.

Remember that by the first meeting you should already have the basic information about the property and have some idea of what price it will fetch if it is a property typical of the area and in reasonable condition.

Let's get back to Mr Jones. You arrive for your meeting ready to listen to what he has to say and with

a list of questions in your mind that are designed to keep him talking about his plans and why he wants to sell the house.

When you have gathered the information you require, you should know the following:

- What he thinks his house is worth
- When he wants to put it on the market
- What he thinks the general condition of the house and property is
- Is he planning any repair work or sprucing up before the house goes on show?
- Does he have a valid energy performance certificate (EPC)?
- When he is planning to move
- Where he is planning to move to
- Why he needs to or has to put the property on the market
- Did he find living in the neighbourhood comfortable and what his feelings are regarding access to schools, shops and other conveniences
- What fixtures and fittings he is leaving in the house
- What his mortgage situation is - is the house fully paid up or is there an amount to settle?
- Does he have a preference regarding a solicitor to handle the conveyancing and legal work or will he be happy to use the solicitor that your agency usually uses?
- Does he have any restrictions on the agent who markets the house showing the premises to prospective buyers?

Be open to the possibility that there may be other details that come up in the conversation. Be flexible, but be sure to get all the essential information you require.

Remember that you get to listen for at least 75% of the time and only really speak when you sum up the conversation.

This will then be your chance to explain that you have already done some work on the appraisal; you have an idea of what the price might be but need to see the house first hand. After that you will have a written summary of the property and an accurate estimate of the price you feel he can ask for his home.

7.7 Assessing the Building and Property

Your next move is a guided tour to get an assessment of the property.

You are going for as much detail as possible and you are taking notes in as much detail as you can. It is a good idea to take photographs with your mobile phone or a point-and-shoot type camera for your own reference. Notes are good, but they tend to be skimpy. Pictures will remind you of features you saw and help you spot things you missed.

Impress upon Mr Jones that they are not for the online listing, inclusion in brochures or newspaper ads. You don't want him to think that you do anything second rate. You can also tell him that, if you get the mandate to sell the house, a professional photographer will be over to take high quality pictures as soon as possible.

7.8 The Tour

Now you are looking at the house from a potential buyer's point of view.

Start at the front gate and move through the house logically. Note good features and bad elements.

When you notice something that raises doubt, query it. For instance, when you discussed fixtures and fittings that are to remain, there was no mention of the two flamingos in the fish pond. Query that immediately. Don't leave anything "for later".

On your tour, refer to your notes from your discussion about items that are due for repair of renovation and ask Mr Jones to show them to you.

Keep a close lookout for cracks in walls. With experience, you will start recognising what might be surface cracks and what could be structural cracks.

Apart from gleaning information to inform your appraisal, you are also looking for clues as to the structural integrity of the house and property. You need to have some idea of what condition the wiring, plumbing and gas services are in and if they might cause problems later.

Rounding up the Tour

If there are any issues that cause you concern, discuss these with the owner and let him know how

they might affect your assessment. Never leave anything unsaid.

Before you take your leave, outline what you are going to do and how long it will take you.

With that done, make a follow-up appointment for you to return and present your appraisal.

7.9 Factors to Consider for the Appraisal

Once you have the details you need from your tour and your research on the internet, you will write up a report for the seller in which you will discuss the following points and how they impact the value and therefore the price of the property:

- The type of house in terms of style and architecture, how many levels it has and any special features
- The number of rooms and what type of rooms
- The size of the property. This will be in two sections, first the size of the land that the structure is built on and second the square meterage of the floor space of the building
- The age of the property
- What improvements and alterations have been made and how old these are
- Special features such as any special materials used, for example marble staircases or a chairlift for people with a disability
- The type of location the house is in - the neighbourhood and its special features and how they affect the value of the house
- Any drawbacks the house might have, for instance, if it is close to a shopping centre
- Advantages like being close to a school or with easy access to but not too close to major roads or the public transport system
- Comparables - this refers to at least two other houses of a similar size, structure and location to the house for sale. Here the prices achieved and the time it took to sell the houses should be stated
- Market conditions - are they improving or worsening and what is driving this change? If it's cyclical, then maybe the timing of the sale could be changed
- An estimate of how long you think it will take to sell the property in the current market

Where there are aspects that raise concern or are special features that set the house apart and elevate its value these should be dealt with in a special section so that the client is aware of your treatment of them.

7.10 Presenting the Valuation

This is a special document and needs to be presented to the client in detail.

When you go to the follow-up meeting, be prepared with the agreements you would like the client to sign for the agency.

The appraisal must then be discussed in detail. You don't have to read it out word for word, but you need to avoid the situation where the client says that it's okay, they will read it and get back to you. The presentation of the appraisal is what salespeople would call "closing opportunity". You want to leave with a firm mandate to market the property, if at all possible.

Assignment

Valuations

Time: 30+ minutes

When it comes to working as an estate agent, obviously valuations will prove to be one of the most important aspects that you will deal with. Test how well you have understood this module by answering the questions on this worksheet.

Download the worksheet below, print out and complete.

[Download Worksheet](#)

Summary

If you have done your work properly from the very outset, you should have a new property to market. Remember that this deal was in the making from the time you met the client at the school meeting or wherever it was. Grooming clients is vital. You won't always have the chance to do it as thoroughly as you would like, but if a person recommends you, then your reputation should precede you. Evaluations, appraisals or whatever you like to refer to them as, are estimates of what a person's property should be worth on the property market in the near future. If you execute your backup checks and do your research properly, you should come up with a figure that your client will agree with.

The whole process is an opportunity for you to show that you are a person of integrity who can be trusted to guard the seller's interests from the outset.

Always remember that the people you are working with are people who have friends and associates at similar stages in life to themselves. You need to have referrals from them to grow your network of people who are likely to be on the property market sooner or later. Become known as a person of high integrity and your business will grow.

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