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**Hosted by: Doug & Andrea Van Soest**

# Episode 33 – Finding the RIGHT Comps to NAIL DOWN Your Value!

**Andrea:** Welcome back to Spouses Flipping Houses, Episode 33. Today we are talking about finding the right comparables to nail down your value, and Doug really is an expert in this. He's former certified residential appraiser and in my opinion, he's a valuation expert.

**Doug:** Well if I do say so myself, I do consider myself an expert in valuation. I mean it's very important, muy importante; a very big part of the investing world is knowing value, so you have to know how to do it right.

**Andrea:** Yeah. And so it's coming at you from somebody that knows what he's talking about. So before we get into that, we just want to say thank you so much to everybody that has submitted a rating and review in iTunes. We really appreciate it; we want to read a couple of them right quick.

**Doug:** So this review came in. It's from "DB1169," five stars, "I've been listening to real estate podcasts for several months now and just stumbled across Doug and Andrea. My wife and I are building our business, and it's great to listen to a husband and wife duo who are crushing the business without crushing their relationship (smiley face).

Thanks for the tips on how to do this as a couple. I've got to admit my wife and I have learned quite a bit about each other in the short time we've worked together on this business. She questioned at times whether we could work together, and the advice you two have given in your podcast gives us the encouragement to know that we can actually work together and prosper, both in business and in our relationship. Keep it going and bring back Mike Cantu for some more episodes."

Agree with that for sure. Thank you so much!

**Andrea:** The Mike Cantu part. The rest of it, thank you!

**Doug:** Right, that' s what I meant.

**Andrea:** And then the other one we wanted to read comes from Jessie Artigue. It's also a five-star rating. She says, "We are a fellow husband and wife podcasting team, and this duo has us smitten. Love learning more about real estate investing and can't wait to start implementing all of the incredibly insightful info that we have learned.

Keep up the great work Doug and Andrea. Your heart and hustle has inspired us over at Marriage is Funny." So I love this one especially because we happen to love this podcast by Jessie and Gerard, called "Marriage is Funny." Didn't even know they were listening to our podcast, so that was super fun.

If you want another resource for working together as a married couple or just on marriage in general, this podcast is fantastic.

**Doug:** Yeah, they are hilarious too. Great podcast.

**Andrea:** So funny, great to listen to, and they just kind of talk through relationship issues in such a true and honest way that's really interesting to listen to. And I know we've gotten a lot out of it, so highly recommend "Marriage is Funny."

**Doug:** Yeah thanks for the shout out Jessie and Gerard. It's great to hear from you. So what's been going on in our business this week?

**Andrea:** A lot. We have been so busy, not only with things in our business, but it's the end of the school year for our three kids so we've been running around literally like crazy trying to wrap everything up for their school years, and field trips, and all of that good stuff.

**Doug:** Graduations.

**Andrea:** Yeah, so it's been really fun but really, really busy. So what's going on in our business though is that this has been a fantastic year for wholesaling for us. We have had some huge wholesale deals close.

**Doug:** Yeah, loving the wholesaling lately.

**Andrea:** Our average wholesale fee has nearly doubled this year.

**Doug:** That's a good thing.

**Andrea:** That's a really, really good thing, so we're loving the wholesale. And then also on our rehabs, we are just getting ready to start choosing all of the fun stuff for our historical project.

**Doug:** Finally.

**Andrea:** Finally we passed all of our inspections. We're ready to drywall and get to the good stuff: the tiles, and the paints, and all of the fun stuff that I love. I was just texting with the contractor, and Doug is like, "Are you ready to start this podcast?"

"Just a minute, I'm texting pictures to Hermando. Hang on."

**Doug:** She's like, "Oh, ahh. Oh I like that one." Getting some ideas, so we're really excited that one is going to start coming together pretty soon, so that'll be cool . We'll put some pictures maybe of that on our website.

**Andrea:** I'm sure we will, and we have other rehabs too but as you know, when you're running a business— and we've talked about this I'm sure before— not every flip is Pinterest-worthy. It just can't be because you're not making good money.

**Doug:** You're going to be way over improving it likely, if it's a lower end property.

**Andrea:** But every once in a while you have the opportunity to do something really, really cool, and that's kind of where we're at on this historical project. We get to make it really cool, so I'm excited.

**Doug:** Good, good stuff. So let's get into the main topic.

**Andrea:** Okay, so as we all know, there are a lot of moving parts when it comes to flipping a house. But if you don't understand how to find the value of a property, you're going to have a tough time making this business work for you. Everything revolves around value.

So Doug, help define value for us.

**Doug:** Well thank you Andrea, I certainly will. No but seriously just to reiterate what you said, if you get the value wrong, I mean it's really hard to fix that once you've purchased the property. If you get that part wrong, you might be in trouble, so very important.

Let's talk about value first of all. There are two kinds of value. There's the as-is value, and the as-is value is the value of the property based in its current, as-is condition as it sits today. That's as-is value. So that's one thing.

Then there's the after-repaired value, and that's commonly referred to in the real estate world as the ARV. You'll use that word a lot if you're a real estate investor. What is the ARV? And what the after-repaired value means is that's what the property will be worth when it's been fixed or repaired according to your design plan for that property.

So a prime example of this would be: we do some homes out in the Palm Springs area, and they have these mid-century modern homes, which are the cool, rat-pack looking, flat-roof type of homes. And there's a ton of those out there. And those have two very different values.

They have the as-is value, those homes that have not been touched since they were built in 1955, 1960. They're worth one thing, and then that same home that is completely remodeled and brought to the current, modern features with the right design elements is worth a totally different number than the as-is number, totally different. I'm talking several hundred thousand dollars difference.

So that's a good example. Same square footage, same bedroom/bathroom count, same lot, same street, can be worth completely different values. So ARV is very important to know.

**Andrea:** So the ARV  is what its price will be in the future once you've gone through all of the hard work of getting it to that point. So how do we find the right comps based on after-repaired value when its not that yet?

**Doug:** Okay, good question. So when you're running comps— we call it running comps— when you're searching for comparable sales and comparable listings, you're wanting to have in mind your finished product on the house.

You're not trying to find sales and comparables that are comparable to what it is today. You want to keep in mind this image of this beautifully rehabbed home that you're going to create, and that's what we're trying to determine the value of because that's where you're going to be selling your property for that price.

So let's talk about how to find that ARV. Alright so I'm going to base this on steps that I took and criteria I would use as an appraiser. Because I used to be an appraiser, and the reason I do it that way is when you're going to sell a home, typically you're going to be selling it to someone who most likely might be getting a loan on the property.

And when they get a loan from the bank, the bank has to order an appraisal. And if that home does not appraise, guess what? You're not selling that home to hose people, likely. Because the bank is only going to lend based on what that appraisal comes in at, so when you're flipping a property, you have to think with the end game…

**Andrea:** End game in mind.

**Doug:** Yeah there we go.

**Andrea:** It's so true because people say, "Oh a home is worth what a person is willing to pay." That's true to an extent. Really, a home is worth what the appraiser comes in at unless you fall out of escrow and get a new buyer and a new appraisal. The appraisal is really, really important.

**Doug:** Yeah the appraisal is going to help determine what that property will actually sell for. Anyway, so that's what you need to keep in mind when you're running comparables. So I think like an appraiser. I'm running comparable sales like an appraiser would do, which is a good way to go about it.

So there's a couple things you want to keep in mind when you're searching for comparables. Number one is the sale date of these comparables, and we're talking about homes that have sold right now by the way, not homes that are listed on the market, not homes that are pending in escrow, homes that have closed actual sales.

A sale date needs to be no later than six months in the past, preferably three months or sooner. And the rule of thumb here is the more recent the better. And obviously that makes sense. The more recent that close sale is, the more similar it is to the current market conditions that you're in.

**Andrea:** So let's say that there are more recent comps that are a lower number that doesn't really help you, but there are comps that are six months back that are higher that do help you. So can I just assume that the appraiser will be able to use those because they're within six months and count on my number coming in at that?

**Doug:** Okay, so if that's the case, that appears to be a market that is trending down. If the majority of your recent sales are a little bit lower than the sales six months ago, you might be in a market that's down turning and you want to raise an eyebrow there. Pay close attention because your value could actually be even lower by the time you're going to sell your house.

**Andrea:** So the appraiser is most likely going to use the more recent comparables.

**Doug:** Yeah, the appraiser can go back six months, but they're going to give more consideration to the sales that are more recent because it's more reflective of the current market conditions, if that makes sense.

And when that's the case by the way, you want to also check your listings and pendings at that point. If the listings are continually getting lower, and lower priced, yeah, that's a good indication that you're in a down trending market. So that's the sale date, number one, the more recent sales the better.

The second thing you want to consider is the location. If you are running comparable sales, if the property is urban property, really built up, you're in a populated city, you want to try and stay within a half mile distance from your property or closer. If it's in a suburban neighborhood, your typical suburbs, up to one mile. Keep your sales, keep your comps that you're running within a one mile distance.

And if you're in a more rural area it's going to vary, but you don't really want to go further than two to five miles away depending. And again, same concept. The reason is, the closer this home is locate to yours, likely the most similar it is to your house and can be considered a better comparable.

Another thing to consider with location is neighborhood. So what do I mean by neighborhood? Well for example, where we live we're in a track development. We're in an area that has a few hundred homes that were built right around the same time, and there are several of these track developments in our city, but those are specific neighborhoods.

So if you can get sales that are in your neighborhood, that's the best. That's the best thing to do. Homes that are outside your neighborhood, not necessarily that you can't use them, but they may not be as good as a home in your neighborhood. If that makes sense.

**Andrea:** So just like with the sale date, the appraiser is going to give more weight to homes that are in your neighborhood.

**Doug:** Exactly, exactly, it's more similar. Especially if you have a homeowner's association or if you're in a gated community of some kind, the importance of that goes up even higher. You definitely need to find some sales within the same community or association that is of the home you're trying to compare to.

Other factors to consider here would be like school districts. In some areas, school districts can be really, really important to stay in the same school district.

**Andrea:** Yeah so we had a great example of this. A couple of years ago, we purchased a home in the city of Pomona. Well, the city of Claremont is right next door to Pomona, and Claremont is known for having excellent schools. People want to live in Claremont for their school district.

Well a section of this Claremont school district happened to run through a small portion of Pomona, and it happened to actually go right down the street of our property. So the homes on the other side of the street of the same home we were buying, were technically in the Claremont school district. Ours was in the Pomona school district because it was on the other side of the street.

So if a person didn’t know this, they could have majorly overpaid for this property because it’s in the same neighborhood, right across the street from these other homes.

**Doug:** Same city. Same zip code. Right across the street.

**Andrea:** They could have seen the value, same city. Yeah they could have easily overvalued and thought that this home was worth $75-100,000 more because that’s what the homes in that school district were selling for, so literally right across the street.

Luckily, we were well aware of this whole Claremont school district thing and knew that our property didn't fall within their district lines, and we didn't overpay.

**Doug:** And sure enough, we sold like $75,000 less than some of those, even though we had rehabbed it, because we were prepared for that.

**Andrea:** But if someone did not know what they were doing, I could see how they could have made a huge, huge error on that property.

**Doug:** So neighborhood, very important. Also, there's boundary lines that you don't really want to cross. You might find a sale that is within a half mile and was sold last week, and appears to be a really good comp based on the location but when you look at a map, it happens to be on another side of a freeway or a river.

**Andrea:** Or railroad tracks.

**Doug:** Railroad tracks. There are certain boundaries that you don't want to cross if you don't have to. And some of those things we mentioned would be things you don't want to cross: freeways, if there's some kind of a major street, busy shopping center that separates two areas, something like that that is sort of dividing two areas. Try not to cross those things and stay within your general housing neighborhood.

And another factor for helping you determine the ARV would be the property characteristics. So now we're talking about the living space of a property, for example.

When you're trying to find what would be a comparable home, you don't really want to veer more than 20-25 percent difference than your subject property.

So let me explain. If the house you're trying to compare is 1,000 square feet, your really don't want to find any sales that are smaller than 800 square feet or larger than 1,200 square feet give or take. That's about the limit. Anything bigger or smaller than that is really not considered a comparable home.

So try to stay really close within square footage and also bedroom and bathroom count. Now when you have a four-bedroom home to a five-bedroom home, it's not that big of a deal. Those are kind of similar. But when you go from a one-bedroom home to a two-bedroom home, you've just doubled your bedrooms.

You have 100 percent more bedrooms in a two-bedroom than a one-bedroom home, so you're probably going to have a different buyer looking for those homes, so that is a big difference.

**Andrea:** Even a two to a three. You know, a two-bedroom home might be great for a single person or people that are like roommates looking to buy a house together, but probably not for a family. A family is generally going to want three bedrooms or more, so you considerably limit your buyer pool when it's just two bedrooms or less.

So going from a two-bedroom to a three-bedroom is a pretty significant jump as well.

**Doug:** it is, yeah, so pay attention to that. There are certain areas where if you just look at across the board all the same sales, and there doesn't seem to be that big of a difference between a two and three-bedroom, then that's one thing.

But most areas if you dive into it, you'll see that on average, the three-bedroom homes, even if they're the same size, square footage, as a two-bedroom home, they're selling for more. Obviously you're getting an extra bedroom there.

Age, another thing, try to stay as close to the age as you can. If it's a newer home, and I'm talking newer like in the last 20 years built, try to stay within a 5-10 year window. So if your home was built in 1995, you want to look for homes from 1990 to the year 2000. That's kind of what you're hoping to find.

The older the home, you can go a little bit bigger on this search. So if the home was built a hundred years ago, look for homes that are 75 years old or older. Try to stay within the general Generation X of whenever that home was built in, so stay within the same generation if you can.

Another thing to consider is views. This can be especially important if views are a prime…

**Andrea:** Feature

**Doug:** Feature or benefit of a certain area. Like in California we have this big ocean, and so properties that have an ocean view are going to be far more desirable, far more valuable than homes that don't. So that's a big one. Lake views, sometimes mountain views or city views.

**Andrea:** It's a big deal in a city like Palm Springs too where they pay attention not only to *does it have a mountain view?* But *does it have a mountain view based on the direction that the sun is setting?* People have a very specific opinion about the exact type of mountain view that they want in that city.

**Doug:** Yeah, so you've got to know these things about your area. So again, trying to find comparables that are similar to the one that you're running comparables for. So views are important. And lastly, any additional amenities that the house might have.

So number of garages, garage space like a one/two/three-car garage. Pools, if you have a pool at your house, try to find sales that have pools. Guest house, barns, stables, you name it, these kinds of features.

**Andrea:** And just know that if your property does have these and others don't, or yours doesn't and others do, the appraiser can adjust accordingly. So he might knock $10-15,000 off your property if you don't have a pool and all of the others do. So there are adjustments that can be made.

**Doug:** Yeah, yeah, and I forgot to mention that the likelihood of finding an exact match comparable is very low. You're just looking in general at all of these things that I've mentioned and trying to find the ones that have the majority of these that are similar to your house. You're not going to find like for like, usually.

Another thing I forgot to mention was lot size. Lot size is another factor to consider. Some areas, this has huge value. Other areas, not so much, kind of the land is all the same. It's not really usable, and it doesn't really matter if you have a half-acre or an acre; it's kind of all the same. So it really is something to pay attention to.

And then lastly, of course, condition. If you're running comparable sales for an after-repaired value, you want to find homes that are upgraded or have been remodeled recently, or are in similar condition to what your house will be when it's going to be sold. How do you know this? Well, you look at the pictures on the listings.

**Andrea:** Read the descriptions.

**Doug:** Read the descriptions. Sometimes the pictures may look okay, but then you'll read the description, and it says, "Handyman fixer.

As-is." Something like that, and you'll know that's not a good comparable because it's not in turnkey, livable, upgraded condition. So pay attention to condition.

Eliminate all of the ones that are fixers, or need work, or are outdated and only go with the comps that are similar to what you're looking for in your house.

**Andrea:** Okay, so let's say that I have just run a search based on all of the criteria that you have just told me for a house I want to flip. But it has come back to me with 30 properties that match my criteria, and they all range in value about a hundred thousand dollars. So what do I do?

**Doug:** Aha, okay good. So you've narrowed it down to about 30 properties. That's a good number to work with. So what you want to do is basically print out that list or look at these properties, and then try to narrow it down to three to five that are the best, the most similar.

Look at a map; see where they're located in relation to your property. Go a little bit deeper into reading about their features. Try to find the best comparables. Narrow it down to about three to five, and then you'll probably have the best one or two, really, that are the most similar.

And give those one or two the most consideration when you're trying to figure out your value. So let's say you narrow it down to three to five, and now your range is only about $10-15,000 instead of $100,000. That's likely what will happen.

You've already got a good range right there. Base it on the most recent sale. Let's say everything is similar except that yours has a pool and that one doesn't. Well at that point, you're like *great, I just need to figure out how much a pool adds in value*.

And you can sometimes derive that from some of the other sales. *Oh they averaged about $5,000, maybe $10,000 more if they have a pool*. There you go. There's your pool; there's your extra value. So maybe $5,000 or $10,000 more than that particular comp. So I hope that helps; I hope that makes sense.

I know it's a quick version of how to find the ARV, but really these are key points that you want to know when you're trying to run and determine your value.

**Andrea:** Like Doug said in the beginning, it's really, really important because if you don't get the value right, nothing else matters.

**Doug:** That's right.

**Andrea:** So if you would like a more detailed explanation of this process and a video example of exactly how Doug comes up with his value for properties that we flip, properties that we wholesale, and properties that we decide to keep as rentals, you can download the free gift from our website, SpousesFlippingHouses.com, and it's a really great resource.

**Doug:** There's a three-part video series in there where I go into a lot more detail on this, and you can watch me do it on the computer to get a better grasp on what it is we just talked about here.

So go grab that if you haven't. That's it.

**Andrea:** That's it.

**Doug:** We are done for this week. We will be back next week with an interview. We're really excited about that, so stay tuned for that one.

**Andrea:** We'll talk to you later.

**Doug:** Buh-bye.