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City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 18, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER ^S

SUBJECT: BUDGET MEMO # 6 : RECENT RESIDENTIAL REAL ESTATE ARTICLES FROM THE WASHINGTON POST

Attached is the article on home valuation from the March 16th edition of the Washington Post. Since this article focused on a home in the Del Ray neighborhood of Alexandria, it was timely and regard to the real estate assessments discussion planned for the March 20th Budget Work Session. Also, attached is a chart from the March 17th edition of the Washington Post article on affordable housing. This chart ("Who Has Housing In Your Price Range?") compares how much housing by price range for 14 jurisdictions in the Washington Metropolitan area.

Attachment 1: "Different Perspectives, Different Price Tags", Washington Post, March, 16, 2002, Section H (Real Estate)

Attachment 2: "Who Has Housing In Your Price Range?", Washington Post, March 17, 2002, page A17

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Different Perspectives, Different Price Tags

For What It's Worth, the Value of an Older House Depends on Many Factors

By Sandra Fleishman
Washington Post Staff Writer
Saturday, March 16, 2002; Page H01

Beauty, they say, is in the eye of the beholder. So is the value of a house.

As prices have climbed in and around Washington in recent years, long-time residents have gasped at higher and higher highs. "How could a house in *that* neighborhood go for *that* much?" is a common refrain. Or, "Can you believe a house in *our* neighborhood sold for that?"

Though the general assumption is that value depends on house size, condition, location, schools and conveniences, the reality is that people are paying what they need to pay to get a house in the neighborhood of their dreams.

So how do you decide how much a house is worth these days? To find out, we decided to conduct an experiment, albeit a highly unscientific one.

We identified a charming 1,600-square-foot bungalow in Del Ray, a very hot neighborhood five miles south of downtown Washington and less than a mile from Crystal City and Old Town.

The neighborhood is so hot that 200 of about 2,500 households have turned over since January 2001, according to its busiest real estate agent.

In January, 199 properties in the city of Alexandria were listed with the Metropolitan Regional Information Systems Inc., the area's multiple-listing service, and 195 went under contract. The average sale price that month was 98.3 percent of list price compared with 96.6 percent in 2001. But Del Ray's top agent says properties there are selling at or above list.

The trim two-story Cape Cod in our experiment wasn't for sale, but its owners, one of whom is an employee of The Washington Post, agreed to let the house be examined as if it were.

Then we recruited three real estate agents, two appraisers and two "buyers" who have been or had been looking in the neighborhood.

Each participant got a tour, a copy of the 2001 county assessment at \$299,800 and a copy of a 1998 appraisal, showing dimensions and information about the house's condition. They were not told the bottom-line result of that appraisal, which put the value at \$385,000.

They also were not told that the 2002 assessment jumped to \$340,000.

Then we asked the participants what they thought the house was worth, and why.

The Players

- McEneaney Associates Inc. agent Nancy Dunning has been dubbed "Queen of Del Ray" by her peers because of her 26 years as a resident and 15 years as a local agent. Dunning's husband, James H. Dunning, has been Alexandria's sheriff since 1986. He started his career as "Mr. Coffee" for the highly energetic Del Ray Citizens Association and quickly became president.

- Martine Irmer, a 10-year agent with Long & Foster Old Town, specializes in a neighborhood near Del Ray that's seeing its own boom, the Parker-Gray community on the north side of Old Town near the Braddock Street Metro station.
- Keene Taylor Jr., broker for Taylor Real Estate Inc. in the District, was sort of a control factor in the experiment. Although the company recently started serving Virginia after 20 years in Maryland and the District, it specializes in hot neighborhoods on the other side of the Potomac.
- Two appraisers squeezed us in. Linda Braley of Linda Braley Real Estate Appraisal Service Inc. in McLean started as an agent in 1977. She has been appraising and teaching since 1986, and was president of the area chapter of the Appraisal Institute in 1999.
- Jim Morris, of Morris Residential Appraisals and Morris Realty Investment Co. in Herndon, started in 1975. He was national director last year of the National Association of Independent Fee Appraisers and is a former president of the group's Northern Virginia chapter.
- The first pair of home-shoppers included Elizabeth Jones, 28, an environmental planner who rented in Del Ray for five years before marrying Dennis Jones, 39, a defense contractor and 11-year resident, last year. The Joneses own a town house three blocks away from the bungalow. They have been looking "seriously" for two months for a single-family house in Del Ray with McEneaney Associates Inc. agent Jennifer Walker, but have been watching the classifieds for a year.
- The other "buyer," Gary Raphael, 36, is transferring to Washington from New York. He works for a major international insurance company. Raphael recently gave up on buying a detached house in Del Ray after looking with McEneaney agent Ann McClure for three months and losing five bids. Last month, he bought a town house. Raphael, who "loves" bungalows, looked in Del Ray and Old Town because he liked them when he lived in Washington five years ago.

The House

Our homeowners bought their house on a quiet corner on one of Del Ray's "best" streets for \$257,000 in 1992.

The 6,500-square-foot lot has a separate one-car garage, a deep wood-fenced back yard and a driveway onto a back alley.

The classic bungalow shows well from the outside, with carefully tended flower gardens in front and back and timely St. Patrick's Day decorations.

The wide front porch features a porch swing, wide purple steps that contrast with the off-white wood siding and classic 1920s porch columns.

On the inside, the house is cute, but tiny. It was built in 1920, according to official tax records, but the owner says it actually dates to about 1930.

The dormer above the first floor was expanded into a second floor in the 1980s, according to the owner, to accommodate three bedrooms and a bath. The kitchen was expanded then into what was once a porch.

The house's charms -- or its drawbacks, depending on your perspective -- include original door and window moldings, hardwood floors and a clutch of well-decorated but tiny rooms on the first floor. They have large windows that let in lots of light.

The first floor includes a small living room with fireplace, a dining room, a library, a den, a bar room, a bathroom updated three years ago and the kitchen. The kitchen cabinets and stove have not been updated since the 1970s or 1980s.

A wide staircase off the dining room to the second floor was added when the kitchen was updated.

The serviceable basement includes an office-storage space, unfinished laundry room and a cluttered storage area with furnace, water heater and workbench.

The neighbors on both sides are much bigger houses of the same vintage. The street contains bungalows, Victorians, brick Colonials and hybrids from the 1950s. Renovations and additions are common in the area.

Also common are children playing in yards and on sidewalks, youngsters in strollers, neighbors walking dogs and nicely maintained and decorated yards.

The Process

The agents toured together on a glorious morning this month, quizzing the owner politely about the ages of additions and appliances, whether decorative features such as a 90-year-old silver-plate chandelier would convey (it would not), and whether anything negative needed to be disclosed.

"I love the porch," Taylor said. "The advantage of most pre-World War II neighborhoods is that you get sidewalks and porches."

Outside, said Taylor, the house looked good, and its immediate neighbors looked better. "What helps this house is that it has substantial houses on both sides that would probably sell for half a million," he said.

Inside, Taylor said the job is "to look for updates," to see how the rooms flow and to look for historic or quirky details "that people who are looking for this kind of house find charming." One such detail, he said, was a beveled-glass insert in a kitchen window.

"It's a beautiful piece of land and the one-car garage is great," Irmer said. "The outside is adorable."

Inside, as she stopped to look at each hairline crack at the tops of walls and studied some damage from an old leak in a ceiling and under a window, she became worried.

"It's a cute little bungalow, but the bedrooms are small and there are a lot of things to be done," she said. "He needs to paint a little upstairs, there's too much patching from leaks. He needs to get a professional to look at all of the cracks and make sure that there's nothing there. . . . The house is obviously settling, they all do. But a buyer will want to know why he gets these cracks and whether everything is okay. These are the kinds of things that scare the buyer."

Dunning and Taylor also said painting and minor repairs would be expected. Both predicted the next buyer would be more interested in the house's potential for expansion.

"It's a nice house, and it has some nice features like the original bull's-eye molding over the doors," Dunning said later. But she anticipated the "next step" would be to combine rooms, redo the kitchen and add a family room, then to build a master suite above.

"There's nothing you can do in that neighborhood that puts these houses out of range these days," Dunning said. "It used to be that you'd need to stay for eight to 10 years to get your money back. But now I can't conceive of an expansion that people will want to do that they won't be able to get their money back or more right away."

The two buyers visited separately; Jones during the day and Raphael at night.

Both said they would like to own the house -- at the right price. Both noted that the small rooms would be a challenge.

The appraisers toured the next week on a bitter cold morning that made picture-taking and measuring outside tougher than usual. The appraisers each had their own style for jotting down critical statistics, drawing room dimensions and location and measuring.

Morris walked off distances, which he would later compare to the facts on public record and the last appraisal. He later measured by tape. Braley used a big tape measure.

Morris noted at one point that the previous appraisal incorrectly measured the width of the upstairs addition.

"The buyer won't care if it is 25 feet off," Morris said, though all of it matters to appraisers. "They will care a lot if their pool table won't fit in."

Both kept track of details. Braley stopped in the basement to examine what she called "stairstep cracks." Many older houses in the area have such cracks, she said, because of marine clay in the soil. The question is whether the cracks are old and do they stem from a lack of foundation sealant years ago, or whether the foundation is still being threatened.

"As old houses go," Braley said, "it looks like it is in pretty good shape."

The challenge in establishing what a house will sell for in an older neighborhood, Morris said, is that "no two houses are alike."

"There's such a range of values out there [when appraisers look for sales of comparable properties]. It's not a cookie-cutter neighborhood," he said.

That led him to list five recent sales of comparable houses -- comps -- after looking at a dozen.

Braley looked at 14 properties before selecting three comps.

Braley said that homeowners "are afraid of appraisers," often worrying that their personal opinions will influence their valuations. "But we're really information sources," she said. "Since everybody else has an emotional investment [in the numbers], our unbiased perspective should be helpful."

"An appraisal is an opinion of value based on fact," Morris said. "The one thing I cannot judge when I look at a house is how bad a buyer wants it and how bad a seller wants to dump it."

He said, "The interesting part of the appraisal process is that 85 percent is very objective and then there's a certain part where we have to look at it and use our own experience. We have to make sure it fits within the framework of the community."

The Results

As predicted, there was quite a range of value estimates.

Though all parties cited the house's super-convenient location (between two Metro stations, and close to shopping, downtown Washington and Old Town), its curb appeal and its charm as reasons for their numbers, the buyers came in low, the agents offered guesstimates \$50,000 apart, and the appraisers came in closer to the agents than one might have expected.

Why the differences? Because the market is so hot and comparables are accelerating daily, the players say. That makes the listing and the appraisal more of a moving target than normal.

Here are the numbers:

- Buyer Raphael predicted \$330,000.
- Buyer Jones predicted \$370,000 "or a little higher, but I am sure it would get bid up."
- Agent Irmer said she would list at \$379,000 if minor repairs were made and would expect bids \$10,000 to \$15,000 higher.
- Appraiser Braley set the value at \$420,000.
- Agent Taylor said the list price should be \$420,000 to \$440,000, and he would expect bids to go up as much as 5 percent from there, or perhaps another \$22,000.
- Appraiser Morris set the value at \$450,000.
- Agent Dunning said the listing could go from \$415,000 to \$425,000 in "as is" condition, to \$465,000 in "punched-out condition."

The owner said he believes \$450,000 to \$465,000 is about the right value. He points to a larger house nearby listed at \$565,000 that drew 350 people to a Sunday open house.

The agents all cautioned that setting the list price too high would be a bad move, ruling out potential buyers. But all expected the property would go for above list price in the current buying frenzy.

"The beauty of this market is that if you price it right or underprice it a bit, it doesn't matter," Irmer said. "In the end, the house will sell for what it was supposed to sell for."

However, Irmer came in the lowest of the agents because of her concerns about the negatives. "Everything I've seen that went above \$379,000 were bigger homes," she said.

"My first gut reaction on this house was \$345,000," she said, but she then factored in houses on less popular streets recently going for much more.

Dunning said her price reflected the fact that "there's nothing on the market right now under \$500,000."

"There's no supply and a huge demand," she said. "So it's going to sell, and it will sell for more now than it would have a year ago and less than it would in six months" if the market holds.

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Taylor agreed that the market is the key. "You could probably make an argument that it would be a \$375,000 to \$400,000 house if you don't compensate for the way that the market is shooting up."

Morris set the value at \$450,000 based on his five comps, which averaged \$432,000, and his sense of the market.

His comps ranged from a newer, larger but less charming brick house on a bigger lot that sold for \$340,000 in February to a similar bungalow that went for \$477,000 in September to a completely remodeled house that sold for \$569,500 in December.

The redone house had sold for \$390,000 the previous July.

Braley's three comps ranged from \$406,400 to \$447,200. She noted statistics showing that Alexandria listings are coming on the market at the same rate that houses are going under contract. "This one-to-one relationship is a sign of a very brisk market, dominated by the sellers," she concluded.

Buyer Jones, however, said she thought the house needed a little work and suffered from having a cut-up layout.

She guessed \$370,000, she said, because of prices on other small houses she's seen. "To be honest, I've never seen a bungalow [for sale] that small before," she said.

But she admitted, "The market is just crazy."

She said, "What has been shocking to us is how quickly the market spiked" in the last couple years. "It really caught us off guard."

Not only is housing of any type selling for much more than list price, she said, but "it's also disheartening that people are so desirous of a house in Del Ray that they waive home inspections when they make an offer."

Raphael, the most conservative, said his \$330,000 guess was based on his experience looking for houses this winter and his night-time visit, which suggested the neighborhood was "a bit of a mishmash."

Though he admits that 700-square-foot studios in New York go for \$375,000, he said he still believes the market in New York is far, far different than in the Washington area.

He said he had expected bungalows to be in the range of \$285,000 to \$300,000, based on his previous time in the area.

When told that estimates of the value of the Del Ray house were more like \$400,000 and up, Raphael said, "If I had never seen anything there and you told me that price, I would have said you were insane."

He said, "It's a great house, definitely my style. And I told them that if they wanted to sell it they should keep my number."

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Who Has Housing in Your Price Range?

This chart reflects how much of the housing market in each county is affordable for households of different incomes. The bulk of dwellings are affordable for households earning \$30,000 to \$50,000 annually. Some counties, such as Fairfax, have housing supplies skewed toward wealthier households, while others, such as Prince William, have more for lower-income brackets. Many counties have two distinct housing markets, one that serves moderate incomes and a second that is affordable to households earning more than \$95,000.

For example:
If your household makes between \$35,000 and \$40,000, 9.7% of the Howard County housing market is in the top price range you can afford (See loan terms in box above).

Another example:
28.3% of the Fairfax County housing market is available only to households earning \$95,000 or more.

INCOME (IN THOUSANDS)	MARYLAND											VIRGINIA			
	D.C.	Frederick	Howard	Montgomery	Prince George's	St. Mary's	Anne Arundel	Calvert	Charles	Alexandria	Arlington	Fairfax	Loudoun		
\$0-\$10	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%		
\$10-\$15								0%							
\$15-\$20															
\$20-\$25															
\$25-\$30															
\$30-\$35		14.7%						13%							
\$35-\$40			9.7%			14.9%	15.1%		16.4%						
\$40-\$45															
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\$70-\$75															
\$75-\$80															
\$80-\$85															
\$85-\$90															
\$90-\$95															
\$95 plus	14.6%			14.3%						16.1%	15.9%		15.9%		

SOURCE: Local government assessment records NOTE: Falls Church and Fairfax City properties are included in the Fairfax County chart. Manassas assessments are included in the Prince William County chart.