

## Market Price and Market Value



By Brian Madigan LL.B.

The difference here may be as simple as fact or fiction.

**Market price** is a **fact**, and market value is an opinion. If you need to determine the specific market price in respect to a particular transaction, you can find that out either by checking the MLS records for the sale or after the transaction has closed, by checking the Land Registry records. But, one way or the other, the price is a fact.

**Market value**, on the other hand, is really just an **opinion**. It's somebody's opinion, either a real estate agent, an appraiser, a vendor or a purchaser, or many of them. However, what they do have in common is that they are all simply opinions. They are someone's view of the market. They are either informed and educated guesses based on sound research and good judgment, or they might simply be the product of wild guesswork.

So, you need to know the difference, and the motivation of the person coming up with the market value. Is a high or low value in their best interest? Might their opinion be influenced by their own self-interest? Usually, that's quite possible. In fact, it's more than likely.

Let's assume that you have a property on the street that is comparable with all the others on the same street, and the selling range is \$290,000 to \$310,000. What's your property worth?

Here is the actual definition of market value from a real estate perspective:

### Market Value

Here is one definition:

*“The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions for a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest and assuming that neither is under undue duress.”*

And, here is another definition:

*“The highest price in terms of money, that the property will bring to a willing seller, if exposed for sale on the open market; allowing a reasonable time to find*

*a willing buyer, buying with the knowledge of all the uses to which it is adapted and for which it can be legally used, and with neither buyer or seller acting under necessity,, compulsion, nor peculiar and special circumstances.”*

Here, is the most commonly used definition in the United States:

*“The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”*

Remember, this is a little different than the stock market. There, the market value is usually the equivalent of the last trade. That is certainly the case when it comes to small quantities. However, it would not apply to control blocks. Also, in the stock market, every common share of XYZ company is exactly the same as every other common share of XYZ Company.

This “identical” quality in the stock market does not apply to real estate. Every property is unique and different. So, you need to find something similar and make some comparisons. And, this is the process that brings in research, judgment and opinion.

## **Elements of Market Value**

As you will see from the definitions, there are several common elements:

- 1) Reasonable Time,
- 2) No Undue Pressure,
- 3) Prudent Behaviour,
- 4) Informed Parties.

### **Reasonable Time**

This is a question of fact. Generally, this might mean 30 to 60 days in the case of an active market for a residential transaction, but in the case of a specific commercial property that is designed to suit a particular purpose, it could be quite a significant period of time, that is, more than 12 months.

## **No Undue Pressure**

This means that both the buyer and the seller are free to do business, or not do business. So, the vendor cannot have mounting debts, a non-renewable mortgage coming due, threats of foreclosure or power of sale. As well, there is no real need to sell because the seller does not get along with the neighbour.

On the buyer's side, there is no compulsion to buy this specific property. Perhaps, this is a 10 foot strip of property that will provide access to the lake. Perhaps, a local restaurant needs the adjoining property for parking. In these cases, the buyer really needs to buy.

## **Prudent Behaviour**

This essentially means that the seller is trying to get the highest price and the buyer is trying to pay the lowest price. Each party is expected to act in their own best interests.

So, if the seller is trying to manipulate the market by selling "cheap" because he owns other properties nearby, then this transaction would be discounted. Similarly a joint owner who is on the verge of bankruptcy may try to sell quickly and cheaply at the expense of his co-owners.

When it comes to the buyer, the standard that is expected is: "to pay no more than necessary". But, in the case of potential mortgage fraud, a buyer might be more than willing to pay well beyond the property's value.

## **Informed Parties**

Both the buyer and the seller are expected to know about the property. If the sewage system is in disrepair and the foundation leaks, and only the seller knows, then this transaction cannot be used for comparative purposes.

Or, perhaps the buyer knows all about a new development that will substantially increase the value of the property. If this information is common knowledge, then both parties are expected to be aware. On the other hand, the buyer may be acquiring lands by way of a land assembly. As long as this information is confidential to the buyer, then the market value is still unaffected.

## **Opinions by Participants**

So, we are still left with the matter of an opinion from someone being the market value. The buyer will rarely believe that the value of the property is quite as high as the seller thinks it is. This, of course, could change in a bidding war.

Let's go back to our example:

Seller's market opinion: \$315,000  
Buyer's market opinion: \$295,000  
Appraiser's market opinion: \$308,000  
Agent #1: \$310,000  
Agent #2: \$315,000  
Agent #3: \$320,000

The seller often has a somewhat inflated value. The seller sees all of the advantages to their own property, and often expects the buyer to simply overlook the disadvantages.

Competing real estate agents will often tell the seller what they think the seller wants to hear. The higher the price, the better. That means, it's more likely that they will get the listing.

Appraisers are obligated to independent third parties. They are being compensated on a fee for service basis. The price doesn't matter. The market value needs to be accurate. Also, it needs to be reflective of the value today. Usually, this opinion will be closest to being right.

The real estate agent, is generally estimating a price not for today, but for tomorrow. So, there's more guesswork. It's more of a "hunch", and it's less accurate. To some degree, it's like the futures market on the stock exchange. The question is not so much, what's the price today, but what's the price 60 days from now.

So, if you need to get an accurate market value, today, **get an appraisal!**

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