

LIBERTY FINANCIAL

A REAL ESTATE LENDING FIRM

DON'T BET THE FARM ON PRICE PER SQUARE FOOT

While looking at homes for sale or recently sold, you often see “price per square foot” right below the list or sale price. The price per square foot is simply taking the listing or sales price and dividing it by the livable square footage of the property. While the price per square foot can give you a general idea of the value of real estate in a particular area, it can also be deceptive when trying to use this as a basis to determine a home’s value.

It is not wise to base the list price of a home solely on the average price per square foot. Since all real estate is unique, the value of a property cannot be summed up simply by using the price per square foot approach. Two homes could be similar in square footage, lot size and location, but if one has an ocean view and \$200,000 of upgrades, the price per square foot would be vastly different. The main reason to consider price per square foot is to view the trends of similar homes in the same locale. If you can examine the average price per square foot, you can get a good indication of whether values are rising or falling and which types of properties are appreciating or declining in value.

Determining the cost per square foot on a 1000 square foot home and applying that formula to a 2000 square foot home could give you a very false value. The price per square foot usually declines when the square footage is significantly greater...it’s cheaper by the dozen. In fact, appraisers won’t even compare a 1000 square foot home to a 2000 square foot home. Generally speaking, a smaller home in the same neighborhood will sell for more per square foot than a larger home assuming both have similar lot sizes and amenities. Another factor is bedroom count. A four bedroom home may have more value than a three bedroom home even when the square footage is identical.

Lastly, location is probably the most important factor for evaluating a property. A home located on a busy street with a lot of traffic will sell for less than a home in a cul-de-sac. The only real way to determine a home’s value is to look at homes similar in size, location, proximity and physical attributes and adjust for any superiority and deficiencies accordingly. A detailed, comparative market analysis taking all aspects of a property into account will always render the best result in determining a property’s value. When the market is on fire, pricing the home correctly isn’t as critical. In a balanced market, doing the homework up front will result in a faster sale, a pain-free appraisal and a smoother transaction.