

This document was made from a post on the Sacramento Appraisal Blog. A few graphs were added to help provide context for the content of the post. All rights reserved ©

Ryan Lundquist
Certified Real Estate Appraiser
lundquistcompany@gmail.com
www.SacramentoAppraisalBlog.com

5 things to remember when using price per sq ft in real estate

Using price per sq ft in real estate can be very dangerous. I know that sounds odd because price per sq ft is about as common as anything in real estate. Home owners ask, "How much is the price per sq ft in the neighborhood?", and real estate agents might say, "I priced this property based on the price per sq ft in the neighborhood." But having a correct understanding about the way price per sq ft works can revolutionize the way you see the market and value properties. Let's unpack five principles below, and I'd love to hear your take in the comments.

5 things to remember when using price per sq ft



1) There is a price per sq ft spectrum in a neighborhood: There is never just one price per sq ft figure that applies to every property in a neighborhood. For instance, in the Land Park neighborhood over this past year the range of value has been about \$150 to \$450. Remember too that a price per sq ft range could easily expand or contract based on the seasonal market or the general direction values are heading.

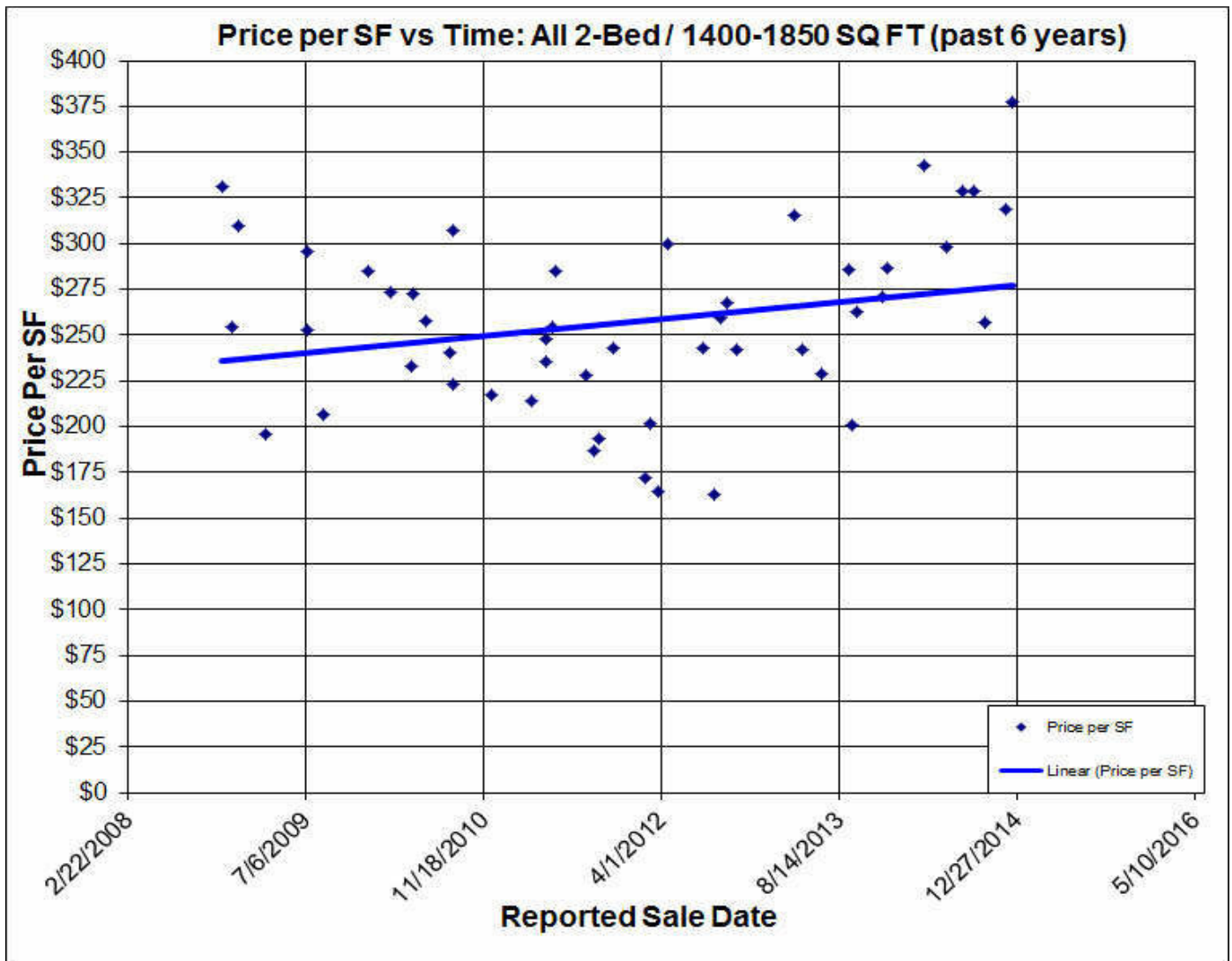
See graph on following page:



2) Similar houses tend to have a similar price per sq ft: When homes are similar in size, location, bed/bath count, etc..., they tend to have a similar price per sq ft. That's obvious, but the contrasting factor is that non-similar homes might have a VERY different price per sq ft that shouldn't be used to value your property.

For example, when looking at all 2-Bed / 1400-1800 sq ft sales in Land Park, these sales tend to have a tighter range. This graph shows sales over the past 6 years, but let's only look at recent sales. Overall the range tends to mostly hover between \$250 to \$350 (with one outlier at \$375). Note that this range doesn't span the full spectrum of the entire neighborhood range from \$150 to \$450 per sq ft. This underscores the reality that different types of properties may have a different price per sq ft range.

See graph on following page:

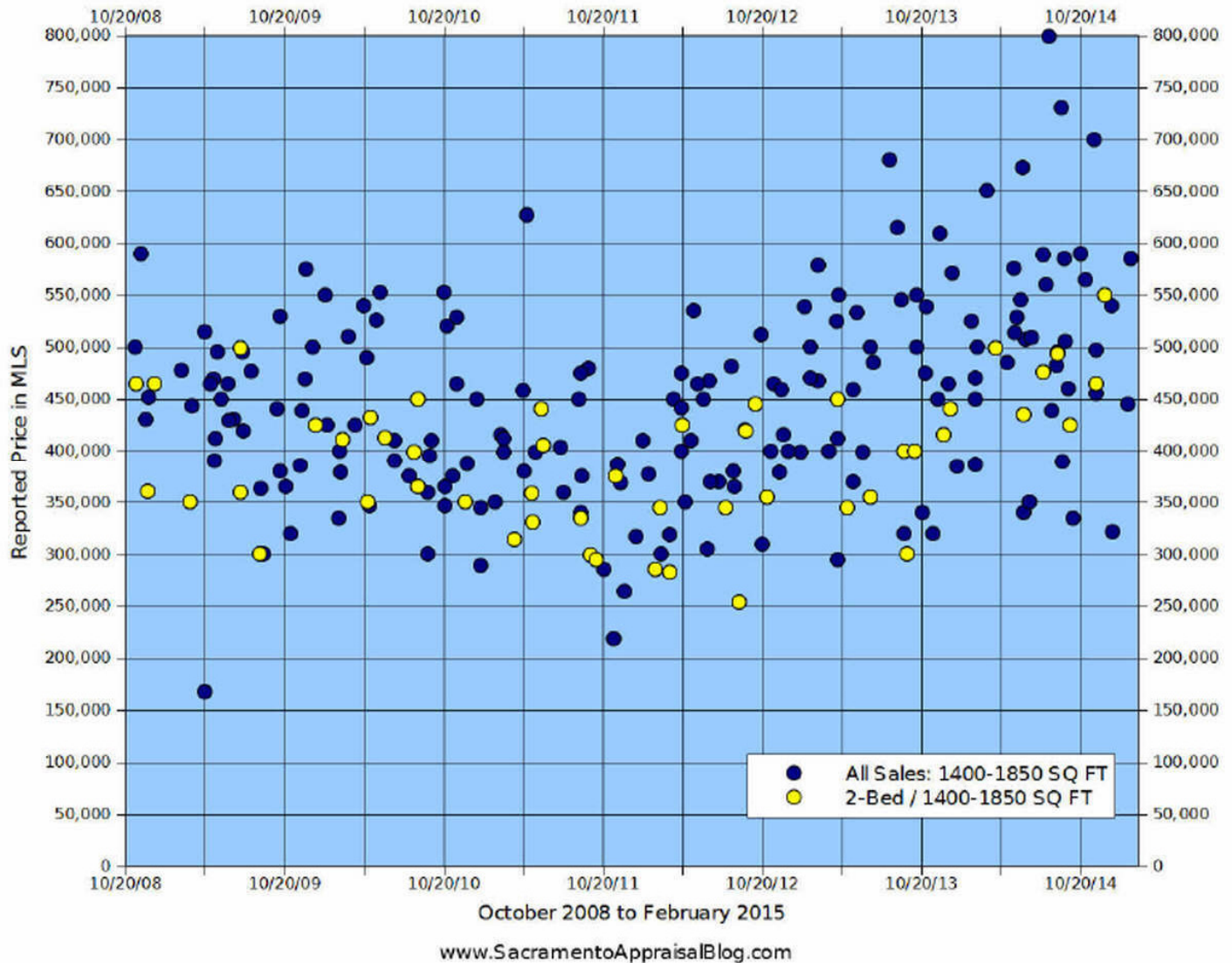


3) Property characteristics can quickly change the price per sq ft: When there are differences in condition, location, lot size, quality of upgrades, bed/bath count, size, etc... the price per sq ft can change dramatically. We might see a small remodeled home selling at \$250 per sq ft, a model match fixer selling at \$175 per sq ft, a short sale model selling at \$185 per sq ft, and a home with an adverse location selling at \$215 per sq ft. Thus even for one model there might be a price per sq ft range from \$175 to \$250.

In the case below, the range of recent sales is \$425K to \$550K. This tells us there is a HUGE spectrum for values based on differences.

See graph on following page:

Land Park Market Trends



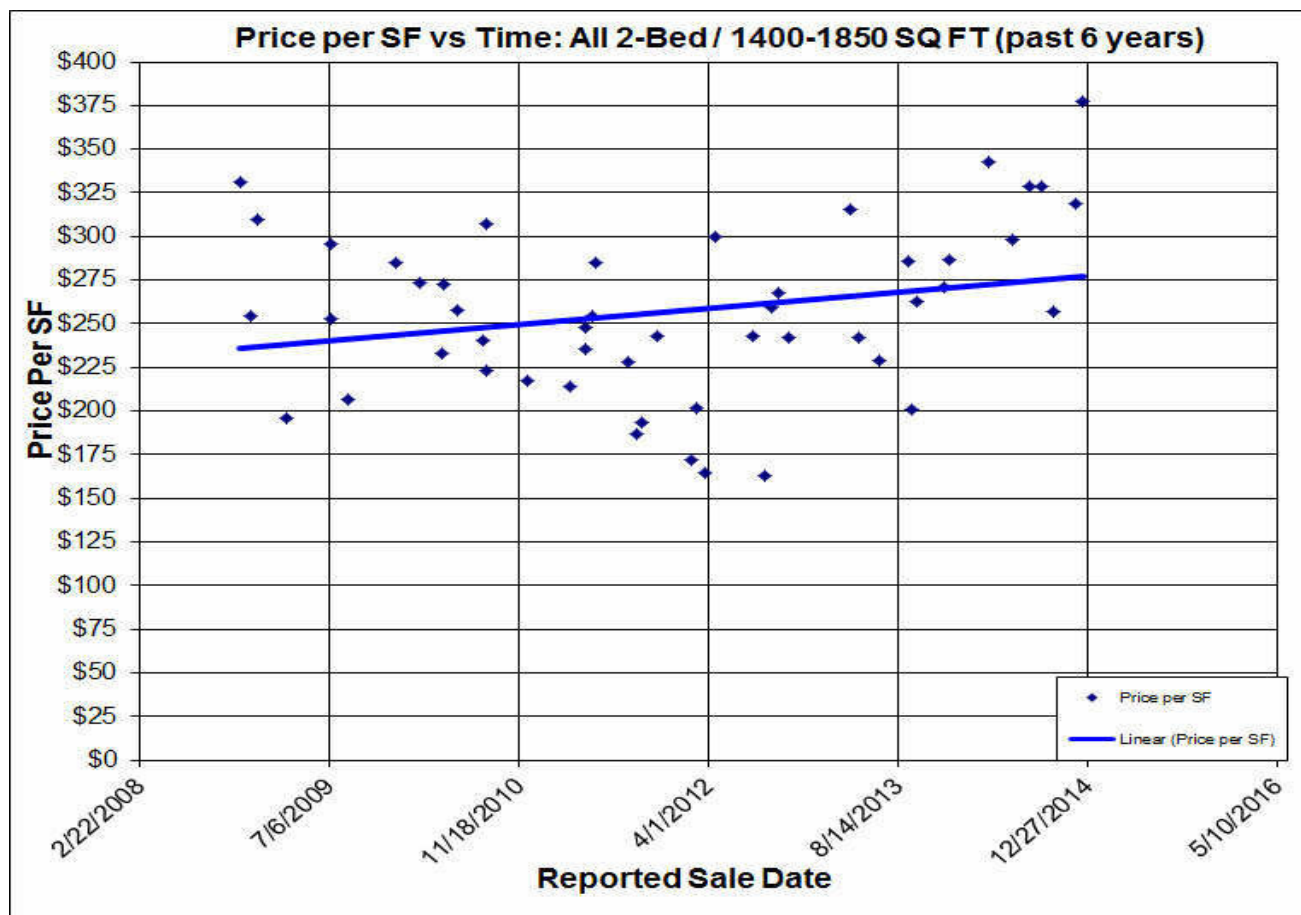
4) Smaller homes tend to have a higher price per sq ft: It costs more to build smaller homes, so smaller homes tend to have a higher price per sq ft than larger homes. This is why it's dangerous to use a price per sq ft figure from a smaller sale to value a larger home. A smaller home might sell at \$250 per sq ft, but a larger home might be closer \$150 per sq ft. Here is a quick video below ([or here](#)):

5) Price per sq ft provides a valuable context: Some appraisers treat price per sq ft as a meaningless metric, but it's actually valuable. When you can talk through price per sq ft figures in a neighborhood, and explain the above points, you are an incredible resource. Appraisers, pay close attention to the price per sq ft range in a neighborhood. If your value does not fall within the range (especially the competitive price per sq ft range), it's important to be able to explain that.

CONCLUSION: Be careful about using price per sq ft to price a property because sometimes it's like putting the cart before the horse. I recommend starting a valuation with an ["apples to apples" approach](#) where you are first and foremost trying to find other similar sales and listings in the neighborhood and then subtract and add

value based on differences. After you have a grasp of similar sales, research price per sq ft figures for the entire neighborhood as well as competitive properties.

Ask yourself if your value makes sense in light of price per sq ft figures. Where should your value fit in this range anyway based on condition or location?



Questions: Any thoughts or insight? I'd love to hear your take.

If you liked this post, [subscribe by email](#) (or [RSS](#)). Thanks for being here.