

Decoding Real Estate Lingo: The Real Meaning of Cost, Value and Price

Education is important whenever embarking on any new venture. Looking at real estate is one new venture that people can prepare themselves for by doing some research. You can get a better deal, make things go more smoothly, and avoid problems by educating yourself on real estate transactions before looking at homes.

Experts suggest that newcomers to the real estate market hire a broker. Brokers work inside the real estate market day in and day out and know how to make things happen. A good broker is one that knows what the local real estate market is like, works hard for you, and finds you a great deal.

One of the important things about real estate purchases that new homebuyers often don't understand is the difference between price, cost, and value. "Eye on Real Estate with Dottie Herman" recently did a show entitled "The Art of Negotiations". CEO of [Douglas Elliman](#) and host, Dottie Herman, discussed the actual meaning of these three words as they relate to real estate.

Value, Herman states, is "An opinion of what you think the home is worth, based on how you're going to use it." Thus, the same home can have a different value to different people. A house with a huge backyard might look great to a family with kids, but look like too much work for an elderly couple. In addition, where you chose to live provides different value as well. One of the best examples is [Brooklyn](#) versus Manhattan.

Cost is the measure of how much money the owner has sunk into the home, Herman says. This includes the purchase price and whatever renovations or upgrades they have done. However, it is a measure of the past and does not directly impact the price of the home, something that many sellers fail to realize.

Price should be what the property is worth on the fair market. It is an amalgamation of things such as the size of the property and home, the condition of the home, the neighborhood, the larger location, and more. However, not all homes are priced appropriately, so the fair market value is a better way to look at things.

A broker's price opinion or Comparative Market Analysis (CMA) takes into account the prices of nearby houses with similar statistics that have sold in the last six months. However, this must be combined with information such as wear and tear, neighbors, view, and the overall environment before a fair market value can be arrived at. The broker's price opinion or CMA is a starting place from which value can be added or subtracted based on other factors, in order to reach the fair market value.

There is no way for another person to perfectly describe a location to another. Even photographs or video won't do the job perfectly, as many people know from visiting a location they had only previously seen in print. For this reason, there is no substitute for actually going to see the properties that you are considering. In the end, the house is worth what someone will pay for it, and what someone will pay depends on a diverse array of factors. As Herman says, "there is no exact science to pricing."