

# FINAL EXAM ANSWER SHEET

First Name: \_\_\_\_\_ Last Name: \_\_\_\_\_ Date: \_\_\_\_\_

Address: \_\_\_\_\_ City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Indiana Real Estate License Number: \_\_\_\_\_

**\*\* See instructions on the inside cover page to submit your exams and pay for your course.**

## ***BOO! Stigmatized Properties*** **FINAL EXAM**

- |  |   |   |   |   |
|--|---|---|---|---|
| 1. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 9. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D  | 17. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 25. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 33. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D |
| 2. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 10. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 18. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 26. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 34. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D |
| 3. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 11. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 19. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 27. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 35. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D |
| 4. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 12. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 20. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 28. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 36. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D |
| 5. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 13. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 21. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 29. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 37. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D |
| 6. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 14. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 22. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 30. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 38. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D |
| 7. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 15. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 23. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 31. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 39. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D |
| 8. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 16. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 24. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 32. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D | 40. <input type="radio"/> A <input type="radio"/> B <input type="radio"/> C <input type="radio"/> D |

## Correspondence Course Affidavit:

**By signing your name below, you hereby attest to the following:**

I understand that I must personally complete the entire course. My work in this course will be based solely on my own efforts, unassisted by any unauthorized individual or resource. I understand that receiving unauthorized assistance will invalidate my course credit. I understand I must spend the designated amount of time completing the course.

---

(Signature)

---

(Date)

---

(Printed Name)

# Indiana Real Estate Brokers CONTINUING EDUCATION

## BOO! STIGMATIZED PROPERTIES

PDH ACADEMY COURSE APPROVAL #CE21600004 | 4 CE HOURS

**PDH** Real Estate

### HOW DOES THIS COURSE WORK?

*To enhance comprehension, review questions are provided throughout the course.*

*A final exam will be administered after the course is completed to check for mastery of the material. If you do not pass the final exam, you can review the course material and retake the exam at no additional cost.*

*If assistance is needed with this course you can contact PDH Academy at 888-564-9098 or at [support@pdhacademy.com](mailto:support@pdhacademy.com).*

# BOO! DON'T BE SCARED OF STIGMATIZED PROPERTIES!

## Welcome!

Hello and welcome to BOO! This four hour course was written by Jonathan D. Coles with an appraiser perspective from Melanie J. McLane, appraiser and broker. We will explore the definition of a stigma, what makes a property stigmatized, lasting effects of the stigmas (if any), and how to price the property accordingly. We'll also discuss the National Association of REALTORS Code of Ethics (referred to throughout the course as COE or "The Code") and our duties of disclosure to clients (if any). At the end of the course, we'll look at some of the scary things that have actually happened to REALTORS throughout the country. We'll also discuss if stigmatized properties are a niche for you. Let's dive into the course!

## WHAT IS A STIGMATIZED PROPERTY?

When you hear the term stigmatized, what do you think? Haunted? Scary? Ghosts? There must be something wrong with it? Bad? Disgraced? Issues? On the market forever? Yes, these are some words that most agents think when they hear the term stigmatized. Most times, there are no positives to the word stigmatized. In this course, we're going to discuss everything above! From ghosts to murders, we'll cover it all.

I like to start with a basic definition. According to Merriam Webster's Dictionary, the word stigmatize is a verb which means "to describe or to identify in infamous/negative/opprobrious terms." Now a lot of that may sound strange. Let's key in one word which will be the key term and theme that we'll use throughout this course --- INFAMOUS. Most stigmas came from something negative.

Now let's talk about this term as it refers to real estate. In real estate, a stigmatized property is one where buyers or tenants may shun for reasons that are unrelated to its physical condition or features. A stigmatized property can also be one with a psychological or emotional, undesirable factor in its history. Again, it has nothing to do with the actual physical structure.

While we're talking about definitions, here is what the Appraisal Institute's definition of stigmatized property states: *The Dictionary of Real Estate Appraisal, Sixth Edition*, published by the Appraisal Institute, defines stigmatized as "An adverse public perception regarding a property; the identification of a property with a condition (e.g., environmental contamination, a grisly

*crime) that exacts a penalty on the marketability of the property and may also result in a diminution in value."*

As you can see and summarize from a basic definition, a real estate sales industry definition, and the Appraisal Institute definition, a stigmatized property is one that is infamous, shunned for its psychological or emotional history, and may result in a lower/diminished value.

## LET'S LOOK AT SOME PROPERTIES AND TALK ABOUT THEM!



The picture above is a haunted house... a classic in stigmatized properties! But a haunting is only one of several types of stigmas that we'll discuss in this course.

There are six major types of stigmas. They are: criminal stigma, debt stigma, minimal stigma, murder/death/suicide stigma, phenomena/haunting stigma, and public stigma. Let's break each one of them down.

## REVIEW QUESTION:

1. **What word matches this definition: to describe or to identify in infamous/negative/opprobrious terms**
  - A. Disclosure
  - B. Adverse Possession
  - C. Stigmatize
  - D. Summarize

## Criminal Stigma

A criminal stigma to a property is one that was involved with a crime or has ongoing crimes being committed in it. If a home was a brothel, a chop shop, or a drug den, it has a criminal stigma. Any time a crime happens in a property, that can cause a huge stigma. Let's take the example of a drug den or crack house. Most drug addicts would approach the house with the intent of purchasing illegal drugs. Most states require a disclosure if the property was used to manufacture methamphetamine. The reasoning for this is because the residue from cooking meth gets into the drywall, carpets, floors, and other surfaces. Because of this residue, this is what causes meth houses to explode. Most people don't know a house was a meth lab until it explodes due to careless handling or overheating of highly volatile substances, waste, and unsafe manufacturing methods. In this example, the crimes don't have to be disclosed, the meth does (in most cases). Other types of crimes, for example, murder, domestic violence, prostitution, kidnapping, sexual assault, gang activity, and criminal mischief all fall into the category of criminal stigmas.



Criminal stigma can be detrimental to a property. No particular crime has more negative effect on a property than another. Once the stigma is attached, the damage is done.

## Debt Stigma

Debt stigma is exactly what it sounds like – the owner has gone into debt and collectors are calling, visiting, and harassing the owner/occupant. Debt stigma can continue when the previous owner has finally moved and the new owner continues to receive the delinquent notices from collection agencies, lenders, credit cards, etc. at the home. This is one of the easiest stigmas to clear up due to the fact of title records, deed and mortgage satisfactions showing the transfer of title to the new owner. Most times, the seller who was in mortgage loan debt would have to provide a clear title report in order for the new owner to get title insurance.



Foreclosures can fall into debt stigma. There are many situations and reasons a property goes into foreclosure. The main reason is that the owner can't make the payments on the home. If you remember the early 2000s, you'll recall that buyers were getting "no doc loans." They didn't have to verify credit, income, and a number of the other securities that we have in place now in the lending industry. Buyers were being qualified for way more than they could afford and had balloon mortgages. Their payments stayed low for a number of years, then at the end of a term (let's say 5 years), they would be required to make a large payment on the principal of the loan. The thought behind this was that within those 5 years, the buyer would be able to refinance and get a better loan product. Well, the financial markets shifted and they were unable to get a better interest rate and refinance. This led to short sales and foreclosures.

Some owners were angry at the bank for throwing them out. As I say when I'm teaching financing- if you don't pay, you don't stay! Owners would break windows, pour cement down the drains, pull the copper pipes and wiring out of the home, sell the appliances, and even break windows to "get back at the bank for throwing them out." I was in a home once where the owner left all of the doors and windows open. By the time the bank representatives arrived to secure the property, all types of animals (deer, bears, birds, etc.) had made the home their own personal toilet. Because it was winter, the pipes had burst, so needless to say, it was a complete mess. The bank reps had to shovel fecal matter out of the house, remove drywall and broken pipes, and a number of other issues due to this owner. I was personally in this home and it was rough! The entire home needed new floors and the bottom half of the walls were totally removed from animal waste. My client wanted to make an offer. We were not successful in buying the home. Not every foreclosure is in a situation like this.

A foreclosure becomes a sigma to the home, but not to people in every market. Foreclosures present risks for

agents, appraisers, and potential buyers. Foreclosures can become homes to squatters (animals and people alike)! Some buyers can see a great deal with the home because it is sometimes listed for below market value and the buyer has the ability to make the necessary improvements. Some buyers for financing or family reasons will stay away from foreclosures due to the amount of work that is sometimes required.

## Minimal Stigma

This is a stigma that is only taken seriously by a small group of people. This likely wouldn't affect the sale of a property. These stigmas can include unsavory activities such as the home being used as a flop house, sex dungeon, or a sex offender's house. This brings up a good time to discuss Megan's Law. The Indiana Association of REALTORS Purchase Agreement (2022) has a paragraph (W4, line 347) discussing Megan's Law. Agents/brokers are not responsible for providing or verifying the information. It is the duty of the buyer to look into Megan's Law if they so wish to do so.

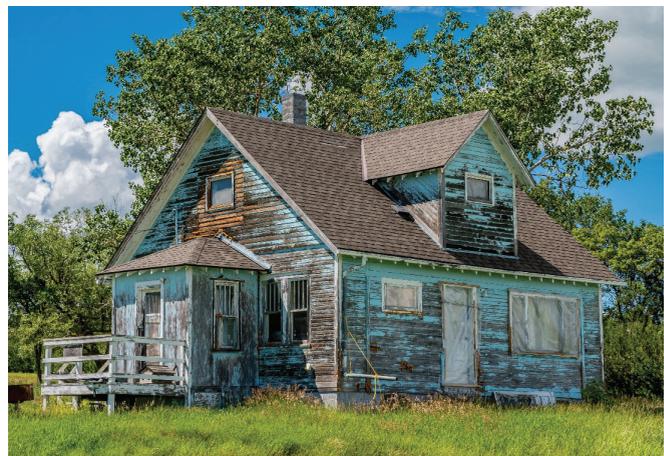
If you haven't already looked at the Indiana Megan's law website, you can view it here:  
<https://www.icrimewatch.net/indiana.php>

Another example of a minimal stigma is the unhappy stigma. A way to identify this is rumors. Have you ever heard the saying "everyone who has ever lived there has gotten divorced?" or "everyone who has ever lived there has lost a child to death?" While they can be coincidences, you need to ask yourself and your clients, "Is that one hundred percent of the time always true?"

## Murder/Suicide/Death Stigma

For most people, this is a major stigma and these stigmas can stay with the home for quite a long time. Some states require sellers to reveal if there was a murder or suicide on the premises. The only places where you have to disclose there was a death in the home/property is Alaska, California, South Dakota, and Vermont. There are a few states where the laws aren't clear about disclosing murder or death. These are Nebraska, Kansas, Ohio, West Virginia, and Maine. The other 41 states DO NOT REQUIRE a mandatory disclosure of death in a home.

Many people and cultures have different views on deaths in homes. I worked with a client once who asked if there were any deaths in the homes we were touring. Fortunately (or unfortunately), my state is one where you do not have to disclose it. It was up to her to do research on whether or not there was a death in the home.



Homes which have the murder/suicide/death stigma, perhaps like the abandoned home pictured above, can be well-known in their communities, even if mandatory disclosure is not required. This may make their sale difficult.

You may be familiar with the childhood rhyme: "Lizzie Borden took an axe, gave her mother forty whacks, and when she saw what she had done, she gave her father forty-one." According to records, Lizzie's step mother was hit 18 times and her father 11. The rhyme sounds better with forty and forty-one! This house did sell and became the Lizzie Borden Bed and Breakfast.



The Borden house fetched \$1.875 million, down from its asking price of \$2 million, but apparently it sold quickly: after listing on a Monday, there were four interested parties by Friday, all of whom made offers. The listing agent never had to hold an open house; in fact, the listing agent never even showed the house.

## Phenomena / Ghosts Stigma

This is the stigma that everyone knows, relates to, and is familiar with. I'm sure we have each seen our fair share of horror movies. Just like deaths in a home, these types of stigmas do NOT need to be disclosed. Most times, these fall under the category of psychological stigmas. We're going to talk more about this a little later on in the course.

This is the most "fun" of the stigmas to talk about. There are hundreds of haunted houses across the country. For instance, there is a house in Rhode Island known as "The Conjuring" house.

The home is known as The Old Arnold Estate in Harrisville, RI and was purchased in 2019. It was made famous by the movie, "The Conjuring" in 2013. The home is a museum and ghost attraction. You can dive deeper into it here: <https://www.theconjuringhouse.com/>



The home that you see above is the Peyton Randolph house in Colonial Williamsburg. It was built in 1715 and is said to be one of the most haunted homes in all of Virginia. This home is a museum lovingly cared for by the Colonial Williamsburg Foundation. It has had many additions over the years and each one has its own haunted history. Interpreters (tour guides) for the home have experienced many strange things during tours and while securing the property for the night. On the main stairway, there is a landing with a large Palladian window. They have seen Mrs. Randolph looking out the window into the rear yard. The interpreters have heard footsteps throughout the house while locking up after all the guests have gone for the day. They have also seen figures of soldiers and young children through the windows when the house is supposed to be empty.

Another US home which has a haunted stigma is Baker Mansion Museum in Altoona, PA. In the home on display is the wedding dress of one of the daughters. She was to marry a Civil War soldier. Tour guides say that the wedding dress will violently shake and a soldier will appear near it. They have also reported hearing voices in the mansion.



Let's summarize the phenomena and ghost stigma section with: if one door closes and another one opens, you may need to ask why!

## Public Stigma

This stigma is when it is known to a wide selection of the population and any reasonable person can be expected to know of it. Anything in the public domain is not confidential. Many of you are on social media (Facebook, Instagram, just to name a few). Anything that you post on there is seen by the public, your friends, etc. A real estate friend says to me often "If you want to cause a ruckus or clean out your friends list, post about politics on your Facebook!" Yes, I agree with that; it can create hours of angst and enjoyment (for some)!

If whatever happened in a property is well publicized and widely known to the point where the house is a landmark for it, then you may want to disclose it. I urge you discuss this with your broker and attorney.

One house that is entrenched in public stigma is Rockingham, which belonged to O.J. Simpson. It's a nice

Tudor style home with exposed exterior beams, diamond muttons on the windows, expensive paver driveway, gardens, and a nice, manicured lawn. O.J. pulled into the driveway of this home when he ended his freeway chase in his Ford Bronco in 1994. The knife from the killing of his ex-wife and another man was found buried on the property.

The house went into foreclosure in 1997 when Simpson couldn't make payments and then was sold at auction for \$3.95 million. It was completely torn down and a new home was built.

This is a classic example of a public stigma. One of the reasons for completely leveling the home was to reduce the number of looky-loos. People would drive past, just trying to get a glance into the home. Some would even trespass during deconstruction to take something from the rubble. Private security teams needed to be hired to keep people from jumping the fence. It's been said that the new owner had to hire extra security.

Another great example of a public stigma is the home depicted on Apple TV's "Defending Jacob." In this series, Chris Evans and Michelle Dockery are the parents of Jacob who is accused of killing a classmate. The family is followed around town and their house is staked out by TV and news reporters, nosy neighbors, and people that want to harm the parents. Most of this show was filmed in Worcester and Newton, Massachusetts. The public stigma of the murder is what follows the house and the family.

## REVIEW QUESTIONS:

2. **This type of stigma can include a drug den, brothel, or chop shop?**
  - A. Debt stigma
  - B. Minimal stigma
  - C. Ghost stigma
  - D. Criminal stigma
  
3. **In this state, you do not need to disclose a death-related stigma:**
  - A. California
  - B. Alaska
  - C. Indiana
  - D. Vermont

4. **In this state, you do need to disclose a death-related stigma:**
    - A. California
    - B. Pennsylvania
    - C. Indiana
    - D. Texas
- 

## EXTREME STIGMA

One stigma that isn't an official stigma is what I like to call the "Extreme Stigma." This is when something so gruesome and grizzly happens on a property that we don't know what to do with it. Let's look at a few examples.

### *Benedict Canyon, California*

The first home that we will discuss is in Benedict Canyon, California. There was a 3200 square foot main house and 2000 square foot guest house. It was constructed in 1944 and sat on 3 acres with a beautiful private drive that led into the home set in the Santa Monica Mountains overlooking Beverly Hills and Bel Air. It was owned by Rudolph Altobelli and rented on Feb 1, 1969 to Roman Polanski and his wife, Sharon Tate. Only 6 months later on August 8 and 9, Sharon Tate and five others would be found murdered in the house. One of the murderers (Susan Atkins) wrote PIG with Tate's blood on the front door. The door is now preserved in an artist's house in New Orleans.

The home was sold multiple times between 1969 and 1994 when it was demolished. Construction of a new home began in 1994 and was completed in 1996. The address was also changed. A completely new style of home was built, a Mediterranean style mansion. They called it Villa Bella. It was listed for sale in 1998. The owner at the time, Alvin Weintraub, made the comment to *Los Angeles Magazine*, "We went to great pains to get rid of everything... There's no house, no dirt, no blade of grass remotely connected to Sharon Tate." When the property was on the market in 2019, it was listed for \$9.5 million. In January of 2022, it was listed at \$85,000,000 then reduced to \$70,000,000 in June of 2022. In September of 2022, it was reduced again to \$59,995,000. The current marketing mentions nothing of the incident.

As you can see, time and location were a huge help to this property. The original price in the 1960s is unknown. From 2019 to 2022, the price really skyrocketed. Do you think that the stigma had diminished over time? I

think it is safe to say that while some people remember the incident and location, that the new grand 18,000 square foot home has replaced everything. Some say that the house is a hotbed for paranormal activity. They call it “The Mount Everest of Haunted Houses” and “The Disneyland for the Dead.”

If money was no object, would you buy the house?

## Chicago, IL

A small, charming ranch house looks normal and fits right into the neighborhood in Norwood Park Township. The owner loaned tools, plowed snow and sidewalks, and hosted parties for hundreds of people. The owner was a contractor and even played a clown for hospitalized children. He was involved in local politics and took pictures with First Lady Rosalynn Carter!

Little did people know, there were a total of twenty six bodies in the crawl space of the cute ranch house! If you don’t know the history of the owner, his name is John Wayne Gacy. Some of the graves were individuals, while there were others that were buried in a common grave; yes, all in the crawlspace of the house, just ten inches below the surface. There were other bodies recovered from the Des Plaines River nearby.

In April of 1979, the house was demolished. A new home was built here (with a basement!) in 1986. With the new construction, the address was changed. In the early 2000s the home was foreclosed on. The home was most recently sold in April 16, 2021 for \$395,000. According to NAR RPR (National Association of REALTORS – REALTOR Property Resource), the automated valuation of the home should be around \$508,000.

Do you think the history of this home has stayed with it? Most likely, yes.

## Washington, DC

It was May of 2015 when Savvas Savopoulos, his wife, Amy, their ten year old son, Phillip, and housekeeper, Vera Figueroa were held captive overnight. The ransom was \$40,000. They were then tortured, killed, and the house was set on fire. There are two daughters who were not home when this occurred. Before the murders, the house was worth about \$4,500,000. On November 19, 2015, the house was sold for \$3,000,000. Due to the fire, almost any buyer would tear down the house and rebuild it. The median home price in this area of Washington DC were \$7,500,000 in 2015. The land is located in Woodley

Park near the Washington National Cathedral, Embassy Row, and Smithsonian National Zoo.

The land was listed in 2019, 2020, and 2021 for \$2,950,000. It did eventually sell on August 13, 2021 for \$2,600,000. With the sale, there is a new address. Nothing has been built on this site yet. Homes in the neighborhood in 2022 sold for \$10,900,000 and \$13,000,000.

According to the National Association of REALTORS, especially in the short term, “violent crimes tend to have a strong negative impact on property values.”

## Silver Spring, Maryland

While we’re talking about homes in the DMV (District of Columbia, Maryland, Virginia), let’s talk about a home in Silver Spring. Brian Betts purchased a home in 2003 where he learned that a man was murdered a year before. In Maryland, you don’t need to disclose a murder. He tried to sell his home, but didn’t get any acceptable offers. In 2010, Brian was murdered in an apparent robbery.

## Mount Vernon, Alexandria, Virginia

We can’t leave the DMV without talking about the home of our first president, George Washington! While his mansion home is a museum today, there are many reports of supernatural events. President Washington died around 11pm on December 14, 1799 after days of throat inflammation from riding through the estate in the rain. George and Martha are buried on the estate.

Tour guides and security say that they hear boots throughout the bedroom where Washington died, along with a spirit. The security alarms would go off in the stables and the Washington bedchamber. They feel that he is putting up his horse and going into his bed.

## HISTORICAL ISSUES

While we’re talking about the negative stigmas, let’s talk about old homes for a few minutes. While most people died in their homes, not all of them come with bad feelings. Most older homes (and even newer homes) probably had someone die in it. From talking to many agents (including myself) that have sold historic homes, most have had someone die in it and it is not an issue for current or future residents. This is going to depend upon buyers. It will bother some buyers while it won’t bother others. From experience, there are buyers that will be able to “feel it” when they walk into the home or the

room. This usually doesn't affect the value of the home for most buyers.

While we're on this topic, there are some positives that affect value. If a notable person stayed in the home, lived in the home, or a specific historic event happened in a home, that can have a great effect on the value. There are a number of historic buildings in Virginia and along the east coast that were home to major events. There is a building in Old Town Alexandria, Virginia known as Wise Tavern. It is currently used as office space. The spaces are unique and offer more of a historic look and feel. The owner of the building can charge more because Wise Tavern is a place where Washington stayed and had a number of his "birth night balls." How interesting would it be to have your office there!

As you can see from all of these examples, there are some gruesome and grizzly occurrences that happen in homes. While some may be museums and others are actually lived in, certain stigmas can stay with the home while others leave with time. As we mentioned at the end of the section, there can be positive events that impact a property.

## Lasting Effects of Stigmas

One question that comes up often is "How long is this stigma going to follow my house?" The short answer is: It depends. A once-pertinent factor can, in some instances, diminish in relevancy over a period of years. For example, a traumatic death that occurred recently in a home could have a greater influence on a reasonable purchaser's decision than a similar occurrence twenty (20), fifty (50), or one hundred (100) years earlier. By way of further example, the fact that a former occupant had died of scarlet fever fifty (50) years earlier would likely have less of an effect on a potential purchaser's decision than the fact that there had been a murder on the premises within the past year. As we discussed earlier in the Tate house and Gacy house, those stigmas lasted due to the public nature and the extreme stigmas of the events. The short answer is: it depends.

## Do I Have to Disclose It???

In this section of the course, we'll discuss whether or not stigmas and events need to be disclosed to the public. Here is an example: An appraiser was doing an appraisal site visit. As she was going through the home, she somehow remembered it. Upon returning to the office, she Googled the address and the local paper came up in the search with the headline: Husband Murdered

Wife, Then Committed Suicide. This isn't confidential information; it was in the paper! It should be discussed with your managing broker.

If occupants of a home have died of health-related causes such as HIV or AIDS, you should NEVER disclose it. If you do, it could be a Fair Housing violation or even worse. When the Covid-19 pandemic began in 2020, this was one of the questions on everyone's mind. Advice from numerous attorneys was that it does not need to be disclosed. A person in a home who passed away from Covid-19 was no different than that of someone with HIV or AIDS. Discuss these matters with your managing broker.

Let's talk about some different terms as far as disclosure. They are material defects and latent defects.

A material defect is one that may affect the property's value or desirability. Material defects are physical -- something that you can see, touch, smell. Material defects affect the marketing, sale, and value of properties. Some examples of material defects are a leaking roof, water infiltration in the basement, well water issues, sewer or septic issues, mold, and the list goes on and on. In Indiana, there is a two page seller's disclosure that the seller fills out. The categories on the form include: appliances, electrical system, water & sewer system, heating & cooling system, roof, hazardous conditions, and other disclosures. Sellers fill out the disclosure by checking the columns "non/not included/rented," "defective, not defective, do not know," along with "yes, no, do not know."

This is one of the shorter disclosure forms. Virginia has a one page seller's disclosure that links to a government website giving basic disclosures in Virginia. The buyer and seller both sign this disclosure form. Pennsylvania and Washington, DC both have eleven page disclosures that need to be filled out by the seller. These forms go in-depth into the home and cover things from all types of pipes (PVC, lead, copper, PEX), roofing materials, water infiltration, mold, radon, environmental hazards, tax programs, and historic preservation ordinances. Don't forget about disclosing the presence and/or knowledge of lead-based paint if the home was built before 1978.

Many states will have the seller fill out some type of disclosure form covering the material defects. Remember, a material defect is something that you as the agent and the seller can reasonably see, such as a water stain on a ceiling from a leaking roof.

Let's take a moment to discuss latent defects. A latent defect is a hidden structural defect that would not be discovered in an ordinary inspection. We, as agents,

*As added by P.L.2-2002, SEC.6.*

don't know what is behind the fake wood paneling in the basement. We don't know if the walls are drywall, plaster, etc. We don't know what the electrical looks like. Remember, we are not structural engineers. We are not home inspectors. We are not contractors (unless we were in a previous career). We should not be giving advice on things outside of our occupation.

Material defects need to be disclosed. Latent defects are unable to be disclosed.

Now that we have defined material defects and latent defects, where does a haunting, ghost, or murder come into place with a disclosure? In Indiana, it is considered a "psychologically affected property." This means that there is reasonable suspicion of facts that someone died in the home or it was the site of a felony, criminal investigation or activity, discharge of a firearm, or illegal manufacture of or distribution of a controlled substance. Below, you'll see the section from Indiana Code that talks about psychologically affected property and that disclosure is NOT required.

**IC 32-21-6-3**

**"Psychologically affected property"**

Sec. 3. As used in this chapter, "psychologically affected property" includes real estate or a dwelling that is for sale, rent, or lease and to which one (1) or more of the following facts or a reasonable suspicion of facts apply:

- (1) That an individual died on the property.
- (2) That the property was the site of:
  - (A) a felony under IC 35;
  - (B) criminal organization (as defined in IC 35-45-9-1) activity;
  - (C) the discharge of a firearm involving a law enforcement officer while engaged in the officer's official duties; or
  - (D) the illegal manufacture or distribution of a controlled substance.

[Pre-2002 Recodification Citation: 24-4.6-2.1-2.]

*As added by P.L.2-2002, SEC.6. Amended by P.L.25-2016, SEC.13; P.L.209-2018, SEC.14.*

**IC 32-21-6-5 Disclosure not required**

Sec. 5. An owner or agent is not required to disclose to a transferee any knowledge of a psychologically affected property in a real estate transaction.

Let's talk about a case that came out of Pennsylvania known as *Milliken v. Jacono*. Pennsylvania, like Indiana, does not require the disclosure of murder, death, suicide, hauntings, etc. Ms. Janet Milliken is from California. Remember, California is a state where you need to disclose a death in a home. Ms. Milliken decides to buy a home in Thornton in Delaware County, Southeast Pennsylvania location. She purchases the home from Kathleen and Joseph Jacono for \$610,000 in August of 2007. The Jaconos had purchased the home for \$450,000 on January 19, 2007 from the Estate of Konstantinos and Georgia Koumboulis. Mr. Koumboulis had shot and killed his wife, Georgia, and then killed himself in the house. The murder/suicide was high publicized in the local area and was on the internet.

When the Jaconos renovated the home and placed it back on the market, they did their homework and contacted the Pennsylvania Real Estate Commission and the Pennsylvania Association of REALTORS hotline to verify that they did not need to disclose the murder and suicide to the public. They were assured that this was not a material defect and did not affect the structure of the home. This did not need to be disclosed to potential buyers. The Jacono's agent suggested that they disclose the murder and suicide as a good idea to get it out there, but they decided not to mention it.

Ms. Milliken asked her agent why the Jaconos only owned the home for a short time and the nature of buying it from an estate. The agent suggested that it was a possible foreclosure and never dug any deeper into the case. Ms. Milliken didn't do any further digging either. Once she was under contract, she was skeptical about why the Jaconos only owned it for a short time and the huge price improvement from \$450,000 to \$610,000. She decided to sue the sellers and the agents involved to void the sales contract and have her deposit monies returned. She was unsuccessful in that lawsuit. She did proceed to settlement on August 21, 2007.

It was only after she moved into the home that a neighbor said, "welcome to the neighborhood and the MURDER HOUSE." This of course prompted questions which turned up the reports of the murder and suicide from the news papers and other articles. In her lawsuit against the Jaconos and the real estate agents, she stated that she never would have bought the home had she known that there was a murder and suicide that occurred in the home.

The Delaware County Court, PA Superior Court, and PA Supreme Court all granted summary judgments to the Jaconos and the real estate agents involved. Judge Eakin,

one of the PA Supreme Court judges, had stated that “regardless of the potential impact a psychological stigma may have on the value of property, we are not ready to accept that such constitutes a material defect” and “the varieties of traumatizing events that could occur on a property are endless. Efforts to define those that would warrant mandatory disclosure would be a Sisyphean task.” Judge Eakin also commented that high-profile tragedies can enhance the provenance and possibly the value of a property.

On September 28, 2021, Ms. Milliken sold the property to a new buyer for \$620,000. She and her agent made sure to include an additional line on the Pennsylvania Seller’s Disclosure that “fifteen years ago, an incident occurred that resulted in the deaths of two adults.”

What can we learn from the Milliken v. Jacono case? The first thing to note is that agents do not have to disclose psychological stigmas. It is not a material defect like a leaking roof or water infiltration in the basement. The second thing that we can learn from this case is that when things don’t seem right, it is important to ask questions.

## REVIEW QUESTIONS:

5. **How long do stigmas last on a property?**
    - A. Twenty years
    - B. Fifty years
    - C. 100 years
    - D. It depends
  
  6. **Examples of material defects are all of the following except:**
    - A. Water stain on the ceiling from a leaking pipe
    - B. Hole or rip in carpeting
    - C. Broken glass in a window
    - D. Electrical issues behind paneling
- 

## DUTY OF DISCLOSURE

Let’s dive a little deeper into the duty of disclosure. If you recall your pre-licensing coursework, you may remember the six fiduciary responsibilities of an agent. They are obedience, loyalty, disclosure, confidentiality, accountability, and reasonable care/skill. You may remember them as OLDCAR. This is a great time to review the duties that we have to our clients.

### Obedience

The duty of obedience is to act in good faith at all times, obeying the client’s lawful instructions. If the client wants you to do something unlawful or unethical, you should say no.

### Loyalty

Loyalty requires that the agent place the client’s interest above their own and all other interests. This is where conflict of interest can occur. For example, if an agent owns or is selling their own property, the agent needs to inform the buyer client that they are a licensed agent and are selling their own property.

### Disclosure

The agent has the duty of disclosure to their client. They must keep the client informed of all facts and information that might affect a transaction. This includes disclosing material facts and material defects that the agent knows or should have known. An agent is obligated to discover facts that a “reasonable person” would feel are important in choosing whether or not to purchase or sell a home. We’ll discuss disclosure a bit later when we talk about the National Association of REALTORS Code of Ethics.

### Confidentiality

This is what it sounds like -- keeping the client’s personal information confidential. Let’s look at an example. If you are a listing agent and the older aged seller says to you, “let’s price it at \$650,000. You know, I really need to get to my grandkids in Florida quickly, so if I were to get \$595,000, I’d really take that.” Yes, you know the seller is motivated to sell and that the seller would take less. You can’t use this information to get the client a quick sale. Your objective is to get the seller the \$650,000.

The same thing can be used in the event of a buyer. If a buyer says, "I just won the Mega Millions Lottery, I can buy any house I want," you can't use that information when negotiating for the buyer.

## Accountability or Accounting

The agent must know and report the status of all funds/documents received from the client. This refers to earnest deposit monies, rental deposit monies, signed contracts, and any other documents.

## Reasonable Care and Skill

Reasonable care and skill is the reasonable degree of competence that a client entrusts to an agent. The client expects the agent to have skills and expertise in real estate matters that are superior to an average, reasonable person. Reasonable care and skill is going to be different if you're a buyer's agent or a seller's agent. If you're turned into the State Real Estate Commission for any licensing violation, the easiest "add on charge" is lack of reasonable care and skill.

Make sure that you remember to always keep your duties of OLDCAR when representing your clients.

## REVIEW QUESTION:

7. **The duties that we owe to our clients include all of the following except:**
- A. Disclosure
  - B. Reasonable Care and Skill
  - C. Fair trade
  - D. Loyalty
- 

## WHAT DOES THE NATIONAL ASSOCIATION OF REALTORS CODE OF ETHICS SAY ABOUT DISCLOSURE?

This is a great question! You're probably thinking---- wait a minute, don't we have to disclose something that we know? Let's look into the Code of Ethics and see what they say. Before we begin, let's take a look at the history of the Code of Ethics.

The National Association of REALTORS was formed in 1908. The original Code of Ethics was adopted in 1913. Real estate brokers wanted things to change. The founders of the National Association of REALTORS stated that business needed to be organized and regulated and that the buying and selling public needed to be protected. The Code of Ethics has been updated almost every year since 1989 so that it is an ever changing and evolving document to be relevant with the time. The Code of Ethics applies to anyone that holds REALTOR membership. Notice the difference, it doesn't say licensee, but REALTOR membership. Not all licensees are REALTORS. The Code of Ethics is divided into three main sections- Duties to Clients and Customers (Articles 1 to 9), Duties to the Public (Articles 10 to 14), and Duties to REALTORS (Articles 15 to 17). Each Article has a number of Standards of Practice that further explain more about the Article.

All aspects of the Code of Ethics can be summarized into the Golden Rule- treat others the way you want to be treated.

### Article 1

The first thing that we're going to look at is Article One. It states:

*When representing a buyer, seller, landlord, tenant, or other client as an agent, REALTORS® pledge themselves to protect and promote the interests of their client. This obligation to the client is primary, but it does not relieve REALTORS® of their obligation to treat all parties honestly. When serving a buyer, seller, landlord, tenant or other party in a non-agency capacity, REALTORS® remain obligated to treat all parties honestly. (Amended 1/01)*

The main purpose of Article One is our pledge to protect the client and promote their best interest and treat all parties honestly. Standard of Practice 1-3 states that we should not deliberately mislead the owner as to market value. Standard of Practice 1-5 discusses disclosed dual agency. As a reminder, dual agency is when the agent

represents the seller and the buyer in the same transaction. The agent needs to disclose this to both parties and have the consent of both parties to act as a dual agent. Article One has a total of sixteen Standards of Practice. These are the two main ones that we should focus on when dealing with stigmatized properties.

While finding the listing price and eventual sale price of a stigmatized property may be tricky, we need to have an open and honest conversation with the seller on pricing the property correctly. There are some agents out there that will “buy” a listing. They will promise the seller the moon and the stars when they know full well that they will never be able to get that price for the property. This is misleading the seller as to the price and can be construed as a violation of Article 1, Standard of Practice 1-3.

The second Standard of Practice is one that a lot of agents don’t fully explain. It is the concept of dual agency. They don’t disclose to the buyer and seller that they know (sometimes) intimate details about the other client. The agent then uses the client’s information against them in order to get the deal done. Some states do not allow dual agency. Some brokerages do not allow dual agency because of the liability. Let’s take the Milliken v. Jacono case from above and change some facts. If the listing agent acted as a dual agent and knew that Ms. Milliken was anxious about the Jacono’s ownership time and large price increase; he could have relayed that to the seller. He could have accidentally let slip about the murder and suicide. He would have cost his seller the sale because of the murder and suicide as well as not properly explaining the price increase and ownership of the Jaconos. He would not be doing a favor to either party and he would be putting himself at risk.

## Article 2

REALTORS® shall avoid exaggeration, misrepresentation, or concealment of pertinent facts relating to the property or the transaction. REALTORS® shall not, however, be obligated to discover latent defects in the property, to advise on matters outside the scope of their real estate license, or to disclose facts which are confidential under the scope of agency or non-agency relationships as defined by state law. (Amended 1/00)

Article two is a very important article. It can be summarized into one word — **DISCLOSE!** Or as I like to say, “DISCLOSE, DISCLOSE, DISCLOSE!” If you know something, disclose it. If you’ve ever been to Washington, DC and ridden on the Metro, you’ll recall signs that say, “If you see something, say something.” We as REALTORS should avoid exaggeration, misrepresentation, or concealment of pertinent facts.

This is where I like to say that if something doesn’t feel or seem right, it probably isn’t. Just like the old saying, “If it’s too good to be true, it probably is.” Article two says that we aren’t obligated to discover latent facts in the property or advise outside the scope of our license. What this means is that we’re not home inspectors, we’re not radon experts, we’re not mold experts (unless we actually are). The best thing to say here is “maybe we should consult a home inspector (contractor, radon installer, “insert occupation here”). Remember the example with the faux wood paneling in the basement from earlier in the course? If you do, then remember, we don’t know what’s behind it, we’re not inspectors, and we’re not digging around to find out.

To discuss a little more about Article Two, let’s look at Standard of Practice 2-1:

*REALTORS® shall only be obligated to discover and disclose adverse factors reasonably apparent to someone with expertise in those areas required by their real estate licensing authority. Article 2 does not impose upon the REALTOR® the obligation of expertise in other professional or technical disciplines. (Amended 1/96)*

Let’s also look at Standard of Practice 2-5:

*Factors defined as “non-material” by law or regulation or which are expressly referenced in law or regulation as not being subject to disclosure are considered not “pertinent” for purposes of Article 2. (Adopted 1/93)*

As you can see, these were last changed in 1993 and 1996. These Standards of Practice go on further to explain that we as REALTORS do not have to discover and disclose adverse factors and do not have to disclose “non-material” factors. As you’ll recall, a haunting, murder, suicide, etc. are not non-material factors, but are psychological factors with a property. The National Association of REALTORS goes on to say that “Absent a legal prohibition, any material fact that could affect a reasonable purchaser’s decision to purchase, or the price that a purchaser might pay, should be disclosed as required by Standard of Practice 2-1 if known by the REALTOR® unless, again, otherwise prohibited by law or regulation.” Remember – Stigmas are NOT material facts!

## REVIEW QUESTION:

8. **Article 2 of the REALTOR Code of Ethics talks about the duty to:**

- A. Disclose
- B. Be honest
- C. Act within your license
- D. Pledge to protect the client

## OK, SO, I DON'T HAVE TO DISCLOSE IT, BUT...

Have you ever had the restless night where you couldn't sleep. Facts that you know were just weighing on your mind? Or you learned something about a property that you should tell your client, but it didn't seem right. Or have you ever been in a dual agent situation and think "I'm a dual agent and the buyer should know that?" Or the last one- "I'm a buyer's agent and I found out about "the murder" from the neighbor. Will it affect my buyer's purchase of the home?"

If these are questions that have come across your mind, you're not the only one! Below are some tips for listing agents and buyer agents.

- \* When you're a listing agent and you find something out about a house (murder, suicide, haunting, etc.), you should ask your seller for permission to disclose it. You should also get it in writing saying that you can disclose it. When Ms. Milliken sold her home in 2021, she disclosed about the murder and suicide. She wanted to be open about it. Listing agents should consult with their broker and a real estate attorney for advice about disclosing a property's history.
- \* When you are representing a buyer, it is a good idea to advise buyers to research the address of the home that they are looking to purchase. If there is something stigmatizing about the home or property, your good friend Google will tell you.
- \* One resource that you can use is *diedinhouse.com*. On Died in House, you enter an address and you will have to pay for the report. They also have subscriptions where you can check multiple addresses. Every report includes:

1. Deaths that occurred at the address whether by murder, suicide, accidental or natural

2. Meth activity including labs, "dumpsites," or "chemical and glassware"
3. Fire related incidents occurring at the address
4. Names associated with the address
5. Sex offender registry
6. Property information
7. Nearby cemeteries

\* Another way to check if someone died in the home you're about to purchase is looking up address in a newspaper archive. It's possible that the address will be in the obituaries or records.



\* Other ways to verify deaths in homes is to talk to the locals. Chances are that they have been living there for quite some time and know of the past occupants. Imagine someone dying in a neighborhood, there will be ambulances, police, firefighters, the coroner, and depending on the situation, news media. It is amazing some of the things that you'll learn from just talking to the neighbors.

Let's talk about funeral homes for a minute. The oldest funeral home in the US was in Williamsburg, Virginia. It was started by a cabinet maker, Anthony Hay, who made coffins on the side. Most people up until the early 20<sup>th</sup> century died in their home. Hospitals in the 17<sup>th</sup> and 18<sup>th</sup> century weren't the hospitals that we know today. They were mainly insane asylums, such as the Public Hospital in Williamsburg, VA. In the 1950s, my mother's aunt had passed away. The "wake/viewing" was held in the front room of the family house. Most times, these rooms were known as the parlor. This is where the term funeral parlor originally came from. As the late 20<sup>th</sup> century came about, we see the beginning of the term "living room." This was a new name for a parlor because the room was no longer used to display the dead. This was happening more and

more in the funeral home or funeral parlor. Because wealthy people of the 19<sup>th</sup> and 20<sup>th</sup> centuries knew that they would die at home, some homes had “death doors” installed. It was seen as improper to take a body through the front door where the living would enter and leave the home. It was also improper and bad luck to take the body out feet first.

Over the years, I have seen a number of funeral homes for sale. Sometimes they continue running as a funeral home. Other times, they are turned back into a regular (non-business) home. What are your thoughts on living in a former funeral home?

## REVIEW QUESTION:

9. **The first/oldest funeral home was a cabinet maker in \_\_\_\_\_.**
- A. New York City, New York
  - B. Richmond, Virginia
  - C. Washington DC
  - D. Williamsburg, Virginia
- 

## APPRAISING AND STIGMATIZED PROPERTIES

Let’s talk about appraising. I know that many of you taking this class are not appraisers. It is necessary to have a general knowledge and understanding of the appraisal process. It is also important to understand the appraisal process with regard to pricing. While there are websites out there that will give you an automated estimate of value, they are not always right. As we know, some sellers will go on these websites to figure out the value of their home because they think the websites know more. I like to ask sellers when these particular websites have been in their home. The owners say never. This leads to a great discussion on how a real estate professional with knowledge of an area and homes is better than an automated value on a website. In this section, we’re going to discuss the basics of appraising and the impact it will have on a standard sale and stigmatized sales.

Before we can get into numbers, we need to understand the appraisal process and how appraisers come up with “the number.” After many years of selling real estate, you should have an idea if the property will appraise for the sale price, or as I like to call it, “the number.”

## THE APPRAISAL PROCESS

There are five things that every appraiser does when an appraisal order comes into their office. These things are: to determine the problem and scope of work; site visit; form an opinion of value for the three approaches to value; reconcile values for a final value; and create the report on the opinion of value. Let’s talk about the term “opinion of value.” That is exactly what it is- an opinion based on supportable facts, evidence, and the approved and accepted appraisal methods.

### Step One – Defining the Problem and Scope of Work

The first step in the appraisal process is determining the problem and scope of work. Most times in conjunction with a sale, the problem is determining the value of the property for the bank or lender. It is the bank or lender that is ordering the appraisal for their information. The buyer pays for it. It is for the bank’s knowledge and eventually the buyer’s comfort in purchasing the property.

Almost every residential buyer wants the comfort of knowing that they are paying the correct price for a property. In many cases if the property doesn’t appraise for the sale price, they will ask the seller to renegotiate the price or possibly terminate the sale. For an investor buying the property as a rental unit or income producing property, they may have the option to terminate a transaction or renegotiate the price if the property doesn’t appraise. For the investor it is a business decision and not a living situation for them.

It is important for the appraiser to know the who, what, where, when, and why of an appraisal and a transaction. They need to know who they are doing the appraisal for (bank, buyer, seller), what kind of property (residential or investment), where the property is located, when is the deadline for getting it returned, and why it is required (Is it a new purchase? Is it a refinance?)

### Step Two – The Site Visit

In this step, the appraiser will set up an appointment to visit the property. The first thing that the appraiser does is to pull up the MLS information for the property (if applicable) and the tax record information. The appraiser will verify the tax record information with the current MLS information. If there is a difference, this will be something that the appraiser will look for when they are visiting the property.

The appraiser will now go visit the property. They will take pictures of the home, mechanical systems, street views, and sometimes surrounding areas or amenities to present a picture to the final user of the appraisal as to their opinion of value. The appraiser will also measure the rooms and verify the square footage of the home. When the sale is in conjunction with a government backed loan, the appraiser becomes an inspector for the government. The government backed loans are FHA, VA, and USDA. The appraisers look for health and safety issues for these loans. The top items that they look for in a property are ground fault circuit interrupter (GFCI) outlets in the kitchen and bath room, handrails for two or more steps, chipping and peeling paint, exposed wires, and old fuse boxes just to name a few. I once had a property that was a duplex (or twin house) getting FHA financing. The property was on a little hill and the steps leading up to the property needed some work. The appraiser wanted the stairs repaired on both sides. After much back and forth, we were able to have the appraiser agree that just the subject property stairs needed to be repaired and not both sides. It would have been a great deal for the other property owner to have a new set of stairs.

### Step Three – Form an Opinion of Value for the Three Approaches to Value

In this step, the appraiser is going to look at the three traditional approaches to value and use them to verify the price of the property. The three approaches to value are the market data approach (sometimes called the sales comparison approach), the cost approach, and the income approach. I will break down the approaches to value after we talk about the concept of value.

#### Value

In order for a property to have value, it must have “DUST” or demand, utility, scarcity, and transferability.

Demand is the need or desire for owning a property in a particular area. There has to be a demand for property in that area.

Utility is the property’s usefulness for its intended purpose. For example, let’s talk about a home in a subdivision. The purpose for this home is residential. If there is a home with many commercial uses around it (let’s say a gas station, doughnut shop, office buildings, etc.) a great use for the property may be commercial. Yes, residential is a good use; more than likely, it will be a commercial use. Now let’s talk about a three bedroom and three bathroom home near a ski resort. Yes, it can be used a residence and possibly a rental (or bed and

breakfast). Depending on the use and utility, this could have two different values.

Scarcity is the next term. This means that there is a finite supply of property in an area. Can I take 5 acres from Morgantown, Indiana and drop it into Indianapolis? The answer is no. There is only so much land available in Indianapolis and only so much land available in Morgantown.

The last term used to help determine value is transferability. This is how easy is it transfer the ownership rights from one person to another. Is it a fee simple estate? Is it a life estate? What are we transferring and how easy will it be?

While we’re talking about value, let’s talk about the two terms the come into play with value. Those terms are market value and market price. Market value is an opinion of what a property is worth. Market price is the asking, offer, or sale price of a property. Let’s say an agent visits a seller and prepares a comparative market analysis and tells the seller, “I think the property should sell for around \$250,000.” This is market value. This is a probable price. Let’s continue with this example. The seller lists the property for \$250,000, the current market price. After some time on the market, the seller accepts a contract with a purchase price of \$245,000. The new market price is \$245,000. We can also say that this is the new market value of the home. An easy way to help you remember market price is to think about your favorite steak or seafood restaurant. When you look at the fillet mignon or the lobster on the menu, what does it say? More than likely, it says market price.

### The Three Approaches to Value

#### The Market Data Approach (or Sales Comparison Approach)

With the market data approach, appraisers are looking at what is going on in the market and with sales. They are comparing the subject property to other properties like it that have sold. The appraiser will look at things such as financing concessions, market conditions at the time of sale and since the date of the sale, the location and area, along with physical features and amenities. The appraiser is also looking at the active, pending, and sold properties on the market. The appraiser mainly looks at the sold comparables because these are actual final numbers. The buyer is in the home and hopefully happy. The appraiser looks at the active listings. These are important to the appraiser (and the buyer or seller) because this is the competition. The pending properties are also important to the appraiser because the final sale price may be the sale price or something around the list price.

The main principle of value that appraisers use for the market data approach is the principle of substitution: Would the other properties that are active or sold be a good substitute for the subject property? One thing that I ask myself when looking at comparables is “would my buyer buy 23 Main Street or 25 Main Street if both of them are similar?” If the answer is yes, then it would be a good comparable.

### The Cost Approach

In the cost approach, the appraiser figures out what it would cost to build the property. Appraisers need to figure out the value of the land. They then figure out the cost of the improvements (house, fences, garage). The next thing that the appraiser has to figure out is the depreciation of the property. There are several ways to determine depreciation that we won't go into. They look into physical depreciation, external depreciation, and functional obsolescence. The appraiser will then apply the following formula (land value + cost of improvements – depreciation), using the information they have, to come up with the value. To figure out the cost of improvements, appraisers use the Construction equivalent of the Kelly Car Blue Book of Values. Appraisers use the principle of substitution when helping to determine value. They use this approach for appraising properties like churches, schools, residential properties, and properties with no comparables.

### The Income Approach

In the event the property is an investment property, they will use the income approach. The income approach is used when appraising industrial parks, income producing properties, apartment buildings, and malls. The principle that they use is called Anticipation. This is value that is created by the expectation that certain events will occur. The value of a shopping mall is worth more when all of the units are full than when the units are empty. Most times, the appraiser will not use the income approach in a residential valuation because it does not apply.

### Step Four – Reconciling Values

In this step, the appraiser reviews all of the comparables and will make adjustments. The appraiser will make calculations based on the number of bedrooms, baths, and other features. The appraiser uses this theory: CIA and CSS. CIA is comp inferior add. CSS is comp superior subtract. The appraiser will never change the subject property. They will either add or subtract value to the

comps in order to figure out the price of subject. The appraiser will add up the adjustments they made to the comps to help determine the value of the subject.

### Step Five – Creating the Report

The last step is creating the report. The appraiser will complete the Uniform Residential Appraisal Report or URAR. It is also known as Fannie Mae Form 1004 or Freddie Mac Form 70. This is the main type of appraisal report that is used on most transactions. There are many types of appraisal reports that an appraiser can use to write the report. The Uniform Residential Appraisal Report is the most common.

This completes the section about appraisals. Next, we'll discuss pricing properties.

### REVIEW QUESTION:

10. The second step of the appraisal process is the \_\_\_\_\_.
- A. Site Visit
  - B. The pricing step
  - C. Reconcile values for a final value
  - D. Creating the report
- 

### PRICING

This is a fundamental skill of any real estate agent. Pricing involves evaluating the property, and the current market, to determine any of the following:

- An appropriate asking price or range
- An appropriate offering price or range
- An acceptable amount, expressed as either a specific price or a range, for a lender to accept for a short sale
- An acceptable amount, expressed as either a specific price or a range, for a lender to accept in a post foreclosure sale

Agents do pricing either by doing a Broker's Price Opinion (BPO) or a Comparative Market Analysis (CMA). Neither of these products is an appraisal, nor should they be referred to as an appraisal. Many states

require that an agent preparing either one of these use a disclaimer that informs the reader of the report that it is **not** an appraisal. Usually, the BPO or the CMA gives a **range of value**, as opposed to pinpointing an exact price.

Pricing needs to begin with the most commonly used definition of market value. Various entities, including Fannie Mae, provide their own definitions, but the most commonly used definition is found in the Appraisal Dictionary and appears below.

“In the U. S., the most common definition of Market Value is the one promulgated for use in Federally regulated residential mortgage financing: 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; (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 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.”

Taking this definition apart, let’s look at some specific phrases:

- *“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”*

Property owners who are in arrears on their mortgage have an ‘undue stimulus’, in that they know the clock is ticking toward the Trustee’s Sale.

- *“buyer and seller are typically motivated”*

Again, a good argument can be made that the seller’s motivation is extreme

- *“a reasonable time is allowed for exposure in the open market”*

Sellers who wait until the eleventh hour in the foreclosure process may no longer be able to have exposure for a reasonable time.

## PRICING: NORMAL MARKET

A normal, or balanced market, is one which the National Association of REALTORS® (NAR) defines as having a balance in supply and demand, with the market not being characterized as either a ‘seller’s market’ or a ‘buyer’s market.’ NAR states that a six-month supply of inventory is a normal market. Over or under supply will affect the market. An under-supply creates a seller’s market; an over-supply creates a buyer’s market. The supply of inventory available is determined by estimating an absorption rate.

It is important to note that when markets shift, it can be difficult to stay on top of the changes in the market. When a lender is looking at an appraisal, BPO, or CMA in a declining market, one of their biggest questions is whether or not the market has bottomed out yet. It is critical when doing any kind of pricing or valuation exercise in a changing market that you thoroughly research the market. In most markets, real estate agents actually see the changes in a market before appraisers do. Agents notice an uptick or decline in showings, both their own showings, and showings on listings they have. They may observe they are getting more sellers than buyers. Buyers may be successfully negotiating lower prices, as well as a seller’s assist for closing costs. Sellers begin offering bonus commissions, flooring allowances, and the like.

Market indicators agents should always be watching are the numbers in the MLS hot sheet. What I mean is the number of new listings, the number of closed sales, the number of pending sales, the number of price reductions, the number of expired or withdrawn, the number of back on the market.

## ABSORPTION RATE

The absorption rate measures how many properties have sold and closed (been *absorbed* by the market) in a typical time period. An overall absorption rate of an entire market is academically interesting, but practically speaking, not very useful. The agent wants to drill down to the type of property being priced. Assume the agent is trying to price a 3-bedroom, 2-bath ranch style house, between 1200 and 1600 square feet, and approximately 10 to 25 years old. That’s where the agent drills down specifically to homes which meet those criteria. You should keep in mind that the guidelines for comparable selection from Fannie Mae include properties which are “physically, functionally, and locationally as similar to the subject property as possible.” Let’s suppose a scenario where an agent has identified these sales in a specific geographic market, and discovers that 36 such

properties sold within the past twelve months. That's 3 per month. If today's inventory is 18 houses, we have a six-month supply, which NAR considers to be balanced. If today's inventory is 48 houses, we have an over-supply, and a buyer's market; if the inventory is only 2 houses, we have an under-supply and a seller's market.

## OTHER MARKET INDICATORS

Two other indicators to watch closely are Days on Market (DOM) and List Price/Sales Price (LP/SP) ratio. These two will indicate when a market is softening. Days on market should be calculated from date the listing is made public to the date of a ratified contract. If you look at listing date to closing date, the data may not be accurate. The seller could have negotiated an extended settlement. List price/ sales price ratio is what percentage the seller got of what they *thought* they could get. When LP/SP ratio is between 95 and 100, it's a solid seller market. As this begins to get lower, it is a sign of the market softening. These two in combination give you a view of the market.

Interest rates affect markets, as do other financial indicators, such as unemployment, federal monetary policy, supply and demand. It's very important to watch all of the market indicators for any pricing assignment, but even more so when you have a greater than normal pressure for a quick sale. As this course is being written, (Fall of 2022) interest rates are on the rise. Interest rates go hand in hand with affordability. The numbers tell the story:

LOAN AMOUNT	INTEREST RATE	TERM	PAYMENT
\$300,000	3.5%	30 year	\$1347.13
\$300,000	4.5%	30 year	\$1520.06
\$300,000	5%	30 year	\$1610.46
\$300,000	5.5%	30 year	\$1703.37
\$300,000	6%	30 year	\$1798.65

Note that when the rate goes up 2.5%, the payment goes up 75%. Buyers base what they will pay on what they can afford. Looking at it another way, when rates were 3.5%, in this example, if the payment represented the principal and interest portion of the payment, the lender had determined that the borrower could pay **no more** than \$1350 per month for principal and interest. When the rates went up to 4.5%, this borrower's affordability dropped from \$300,000 to \$266,438. When the rate goes to 5%, the borrower can only borrow \$251,480. Finally, at the top rate (in our example, rates have and can exceed 6%), the borrower can only afford a mortgage of

\$225,168. It's the same percentage of loss; the borrower can now only afford 75% of what he/she could previously afford.

Knowing the local market inventory and trends is essential. If you are an active agent working in the market where the property is located, you should have a sense of which direction the market is going in. You can research MLS and REALTORS® Property Resource (RPR®) for data to support your conclusions. If you haven't already used REALTORS Property Resource, it is a great tool offered by the National Association of REALTORS. With RPR, you can prospect for clients, create reports, create an investor analysis, look for opportunity zones, create a comparable market analysis, and prepare marketing for your listings. You can also use it to research areas, neighborhoods, and schools. If you haven't already, log onto [www.NARRPR.com](http://www.NARRPR.com) and create your account today!

## PRICING STIGMATIZED PROPERTIES

When pricing a stigmatized property, it is important to look at some of the appraisal principles that will help us such as the Law of Supply and Demand, the Law of Scarcity, and Environmental Hazards.

### The Law of Supply and Demand

The Law of Supply and Demand works in real estate just like it does for any other market. The value depends on the supply. I think we all remember the 2020 toilet paper and paper towel shortages during the 2020 pandemic. The local grocery and big box stores could not keep these items in stock. Consumers were stock piling these items and hoarding them. If you recall, the price of toilet paper and paper towels rose. I needed some of both products during the summer of 2020 and my local stores didn't have them. I paid almost \$40 for a package of 6 rolls of toilet paper and a package of 10 paper towels. Talk about flushing money down the toilet!

Demand for paper products was up, so therefore the price went up. As we became more stable and people returned to their places of work and offices in 2021 and 2022, the prices of toilet paper and paper towels went back to normal prices. Demand decreased, therefore the price decreased. The principle of supply and demand can be seen in hurricane areas and winter weather locations with the price of gas for cars and generators.

What is the demand for a stigmatized property in your market? What is the stigma? How bad is the stigma?

## Law of Scarcity

The Law of Scarcity means that there is only a finite amount in a certain area. As we discussed earlier with the 5 acres of land from Morgantown and placing it in the middle of Indianapolis, there is only a certain amount in a certain location.

Is there a finite number of stigmatized properties in your area?

## Environmental Hazards

Environmental hazards are the physical traits of a property that most of the time are stigmatized. This is a great place to mention environmental stigmas. Before we continue, this is the area that in most states with a seller disclosure, you would have to disclose.

## STIGMATIZED PROPERTY EXAMPLE IN PRICING

Imagine you purchased a property with a buried oil tank and a basement. It is an oil burning furnace that is used to heat the house. The tank is 1,000 gallons. If the home is kept at a reasonable winter heating temperature (let's say 73 degrees), that 1,000 gallons should last you three months. The oil truck comes almost every two weeks to fill the 1,000 gallon tank. The oil delivery man after the second delivery notices an oil smell in the basement. Upon further investigation below the concrete in the basement from drilling holes, you find that your home is floating on oil! All of the oil you had delivered has leaked out of a crack in the buried tank and is now literally under your home!

This is a real scenario. To make matters worse, the owners were behind on their mortgage payments and the lender was about to foreclose on the property. When the lender found out about the floating oil home, they decided to not foreclose. This property became an environmental hazard. The homeowner's insurance paid for some of the damages, but it did not cover everything. The owner then looked to the law in order to find the potentially responsible party to get the rest of the repair costs paid.

In this case, the cracked oil tank and oil leakage would be necessary for the owner to disclose when they sell the property. It is going to be hard for them to hide it (similar to the Jacono case earlier in the course) because all of the neighbors knew about it. So not only is this case a disclosure issue, it is also a stigma. Will it affect the pricing- yes, absolutely! Will the stigma go away after

time? Possibly. It is always hard to tell. We'll discuss the length of stigmas a little later in the course.

To finalize this scenario, this is where it is important for an agent to do research on a home and on an area. If an agent isn't familiar with things that have gone on in a certain location, they should probably not be selling homes in that area. To become a great agent, it takes time, practice, and general knowledge of an area to properly represent your buyer client or seller client.

There are a number of things that you want to ask yourself when choosing comps- Are there other stigmatized properties like this around? If so, how many? Have they recently sold? Is there a market for properties like this in my area?

To give you a short answer: there is no easy way to get an exact price for a stigmatized home. It is really going to depend on the stigma. As you can tell from the earlier example of the Gacy house, the price didn't go way up. There could have been other factors such as the market, supply and demand, etc. In my estimation, I think the biggest issue in the sale prices were the murders. Let's look back on the Tate murders. Yes, they were gruesome and that price is in the multi-millions due to the area near Los Angeles (again, supply and demand). It is going to take longer to sell because of the size and uniqueness of the property.

## A SCARY CASE STUDY!

This example comes to us from the Northern Virginia Association of REALTORS in Virginia. Remember, Virginia is a disclosure state as we discussed earlier. We'll also take a look at the National Association of REALTORS Code of Ethics.

### The Case:

*An agent gets a call from a prospective client and schedules an appointment to make a listing presentation. During the listing presentation, a rather desperate seller informs the agent that her family wants to sell the house as soon as possible. The seller explains that a ghost is haunting their house. The seller's family is so distraught that they have moved out of the house and are staying with friends in the area. The seller explains that she wants a quick sale regardless of the price.*

*The listing agent admits that this sounds "a little wild." However, the agent takes the listing and begins marketing the property at the price set by her client. The listing is entered into the Multiple Listing System and an open house is scheduled for the weekend. During the open house a young man with a scruffy appearance enters*

## OTHER SCARY STORIES FROM NATIONAL ASSOCIATION OF REALTORS MEMBERS

*the property and asks the listing agent for a tour. After taking the prospective buyer around the house the listing agent asks for the sale. Unfortunately, she gets a rather disconcerting answer.*

*“Yes, my dog Scooby-Doo will love this place. I will give the seller whatever they want if they will let us move in right away. Scooby doesn’t like the spooky mansion where we currently live because it is haunted by a ghost. We want to live in a nice, quiet home with no ghosts.”*

*Now the listing agent wants to know if she was obligated to disclose the information about the ghost to the prospective buyer.*

Virginia’s Seller Disclosure law defines stigmatizing events (such as ghosts, murders, etc.) that had no material effect on the property as non-material. Standard of Practice 2-5, combined with this disclosure law, releases Virginia’s REALTORS® from the obligation of disclosing stigmatizing events.

Although you are not obligated to affirmatively disclose this information, you are still required under Article 1 of the Code of Ethics and state law (54.1-2131 B) to be honest with all prospective buyers. If the buyer in this case had directly asked about the presence of ghosts, the listing agent would be prohibited from providing any false responses to this question.

When listing agents ask for my advice on how to respond to such a direct question, I recommend avoiding the question. I recommend the following truthful but evasive response: “Ghosts, suicides or alien abductions are defined as non-material under state law, and agents are advised to avoid discussing non-material facts that stigmatize a property.” It is important to avoid providing any answers that can be viewed as denying the existence of ghosts in this situation because that could open up a dispute over the honesty of such answers.

Many buyers become very upset when they learn that agents do not have an obligation to disclose the fact that the house is haunted. The buyers eventually will discover the issue, probably the first time they meet the neighbors. Please react professionally if a buyer becomes upset. It may help defuse or refocus their anger if you refer them to the statutes referenced above or provide them with a copy of this article. You also can refer their questions and concerns to the Professional Services Department if you need any help explaining this information to irate buyers. However, no matter how angry the buyers get, please don’t tell them to “call Ghostbusters” if they want to take care of the ghosts. That one I did not make up, though I really wish I had.

*A real estate agent shows a small Cape Cod house to a first-time buyer. The house had been completely renovated from top to bottom and was being offered at an incredibly low price. The client was touring upstairs and the agent was downstairs. While standing in the dining room, the agent heard a woman’s voice in the kitchen say, “I’m in here.” The agent goes into the kitchen, but no one is there. The voice called out again, “I’m in here.” Startled, the agent goes into the kitchen, and again, no one was there. When the buyer came downstairs, they’d decided to make an offer. The agent, worried by this time, pulled the seller’s property disclosure statement. Added to the last page was a newspaper article that read: “husband killed wife in the kitchen and lit the home on fire.” The buyer decided not to make an offer and the agent still gets chills to this day when they think about this house!*

*A broker was showing a piece of land to a client. While touring the land, they discovered both human and pet cemeteries on the property. It was overgrown with brush, cement kennels, a vacant squatter’s camp complete with homemade alarms, and huge spider webs between nearly every tree. To top it off, it was at the end of a long dirt road with a big yellow “Dead End” sign. The property looked like something straight out of a horror movie.*

*A broker took a client to a home which, from the outside, looked like a simple, ordinary ranch-style house. But once inside, they discovered religious symbols all over the place. There was a crucifix over every door, including closets and cupboards. Each door had a picture of various saints and religious icons taped to the front and back. The client, who was an Orthodox priest, said, “This house is ruled by fear.”*

*An agent was showing an older house to a client. It needed a substantial amount of work. While examining the house, they found a spooky message written on the kitchen wall. It said:*

**“DO NOT BUY THIS HOUSE  
IT IS HAUNTED - BY 2 GHOSTS  
2 WOMEN – THEY HATE MEN  
PROPERTY BUILT ON GRAVEYARD + THIS IS A 1875  
ON THE RIGHT HAND SIDE  
THE OTHER PROPERTIES – EVERYONE HAS DIVORCED  
PLEASE DO NOT ACQUIRE IF U R MARRIED...  
AWFUL THINGS WILL HAPPEN TO YOU”**

## ANALYZING THIS NICHE: IS IT FOR YOU?

The short answer is “it depends.” All niches have potential. There are a lot of things to look at when choosing a specialty. Some of these things include your market and your skills and resources.

Let’s talk about your market. It is important to review and analyze the market. Are there a lot of stigmatized properties in my local area (Remember, this can include foreclosures)? In my surrounding areas? If the answer is yes, then it may be a good idea to become familiar with what the market is doing and what is changing in the market? Can you be a resource to these owners?

Let’s take a minute and look at the easiest type of stigma: the foreclosure.

Is your niche overcrowded in your area? Are there too many “Foreclosure Kings” and “Foreclosure Queens” in your market? Are there a lot of agents doing investigation on properties that have any of the main types of stigmas? Not only do you need to look at the number of foreclosures, you need to look at how many agents are handling them in your market. How many of the “kings and queens” are getting the properties to escrow/closing and how many are not selling? Knowing the properties and players in the market is key when defining your niche. If you’re seeing a lot of foreclosures expiring in your MLS, this may be the time to jump in and become the new player. Even when you do not currently have foreclosures in your area, or a lot of them, it’s always a good idea to connect with lenders and ask them who handles the listings of foreclosed properties for them. Can you interview to be that agent? Just because Agent X has always gotten all of the foreclosure business from Lender ABC does not mean that their name is written in stone. You will generally have better success with a local ‘bricks and mortar’ bank where they know you, as opposed to a large, national lender. The larger the lender is, the more layers of people you have to get through to get to the decision maker. The local, bricks and mortar lenders should know you, because you should be using them for mortgages. Many times, if you are a REALTOR®, they are affiliate members of your local REALTOR® Association, and they come to events, such as the Board Luncheons. This gives you an opportunity to chat with them. Real estate remains very much a relationship business, so it never hurts to cultivate relationships like these. You can also research and see if particular attorneys or law firms seem to specialize in foreclosures. Again, try to get a meeting, even for a cup of coffee, with people in that firm.

Sharpen your skills and resources. How good are you at looking up tax records? How good are you at electronically digging? Most times in tax records or public records, you can find which banks are holding the loans. Getting in touch with these banks/lenders may make you the agent of choice for these types of properties. As mentioned above, it may be difficult, with a national lender, to get to a decision maker. If you go to classes and meet other agents, ask if they do foreclosure business. Find out how they got started. Did they take any special training? Do they have any tips for you?

Is this niche profitable? Profitability is going to be based on how much you can earn from a transaction, and how many hours you will put into earning that commission. A standing joke is that some transactions, at the end of them, should require you to ask the client “Do you want fries with that?” That’s because, based on your time and effort, you earned about minimum wage! Many agents who are active in this niche have stated that they must have a high volume of listings to make it profitable. In addition to needing, perhaps, a lot of listings, you have to evaluate how much time you will be investing in those listings. If, for example, the client wants you to both list the property and do periodic inspections, and send reports, all of that takes time. If they want you present when occupants are evicted, so you can supervise securing the property, that takes time. If they expect you to line up handymen, trash removers, lock smiths, etc., that takes time. The concept of opportunity cost needs to be considered.

You also need to consider whether or not you will enjoy this work. Many agents who have specialized in this field have burned out. Some have stated the awful condition of the houses, which was depressing; others have said they cannot emotionally handle being present when people are literally put on the street. Yet others have noted the lack of good communication with the client/lender, and the slow response time to offers.

General advice for all real estate salespeople: Don’t try to be all things to all people. Find what you are good at and do it. You can have more than one niche. Take the business you enjoy.

Set a goal within your niche that will give you the highest chance of success. Even if you choose not to make foreclosures your main niche, use it as a supplemental resource for income. Become familiar with all of the ins and out of foreclosures, the legal process, and how best to market them. Do you have investor clients that will purchase them and bring the home back to life? By the way, if you do, this is another selling point for why the lender should hire you to sell their foreclosures.

Think about the entrepreneurial incentive and the cost to cure a foreclosure. Do you have extra money to purchase

it? Do you have the time and contacts (contractors, HVAC installers, carpet or tile installers) in order to bring the house back to life? If you do, you can make yourself an amazing niche. Just remember to disclose that you are a licensee when you go to sell the property! Many if not all states have laws requiring an agent to disclose that they own the property and they are the seller. The reason for this is that the agent who is the seller has a better knowledge of the industry and can easily take advantage of a buyer. So, in short, remember to disclose! It is one of my favorite words--- disclose, disclose, disclose. Also, remember your laws on disclosure of dual agency. In Indiana, you are allowed to be a dual agent with the proper disclosures and consents from your client.

## Suzanne St. John

Let's take a minute to look at Ms. Suzanne St. John. She is the REALTOR that sold the "Conjuring House" and the Lizzie Borden house. The first house she sold was the Lizzie Borden House. Here is a brief recap from earlier in the course to help you remember.

The Borden house fetched \$1.875 million, down from its asking price of \$2 million, but it sold quickly: after listing on a Monday, she had four interested parties by Friday, all of whom made offers. There were no open houses or showings; the house sold on reputation alone.

Ms. St. John is also a tour guide at Lizzie Borden's Bed and Breakfast and has appeared on the Travel Channel as Bridget Sullivan, the Borden family's maid.

In case you were wondering or didn't know the full story, Lizzie Borden was acquitted (found not guilty) of the murders. On a happier note, she and her sister moved into a large, modern house in Fall River, Massachusetts that they name Maplecroft. They had live-in maids, a housekeeper, and a coachman. Would you spend a night in Lizzie's Bed and Breakfast?

## FINAL THOUGHTS AND STATISTICS

Many experts say, especially with historic homes: "Don't demolish them. There is character and charm that you can't get back." Sometimes, it helps to change the exterior of the home. Change the paint color, change windows, add a porch or patio. There is a lot that you can do.

Let's take a look at one more notorious house before we part ways -- The Amityville Horror House. The house is in Amityville, New York on Long Island. It was owned

by the DeFeo family. In 1974, the DeFeo parents along with four children were shot and killed by a 23 year old relative. He said that he didn't do it and that malevolent voices in his head instructed him to do it. He couldn't control his behavior. The house was later sold to the Lutz family in December of 1975. They bought a great steal of a 4,000 square foot house for \$80,000 on Long Island! Within 28 days of moving in, the Lutz family moved out. From green slime, foul odors, and Mr. Lutz waking up at 3:15am, the exact time of the DeFeo murders, it was time to leave. In 1977, it went into foreclosure. The next owners, The Cromartys, changed the address. Subsequent owners have not had issues with green oozing walls, levitations, or foul odors. There were some major renovations in 2010, such as removing the quarter moon attic windows, modernizing the kitchen, a redesigned basement, high end security system, large boat house, swimming pool, and two car garage. Some say changing the address helped to solve the stigma. Others say it was the removal of the windows. To end this story, the house was on the market again in the summer of 2016 for \$850,000. It eventually sold for \$605,000 in February of 2017. The most recent owners have not mentioned or heard any voices. So, it's up to you to decide. Would you buy and live in the Amityville Horror house the next time it is for sale?

## WILL HAUNTED HOUSES SCARE OFF HOME BUYERS?

In an article from "Real Estate Witch" in October 2021, there are some statistics about haunted houses.

Excerpt: Some Stats:

While paranormal activity may frighten some, here are other aspects of homeownership that some buyers say are more frightening: mold (57%), foundation issues (56%), termites (54%), asbestos (54%), and water damage (54%). Buyers also fear floods (54%), fires (49%), and other safety hazards, yet many lack basic safety features in their home.

73% of Buyers say they'd consider purchasing a haunted house — but 52% wouldn't pay full market value.

Nearly two years into the pandemic, close to half of the respondents (44%) say they've lived in a haunted house — a significant leap from 2020, when just 24% of Americans said they had experienced a haunting. Of those who reported living in a haunted house, 63% say they were aware of the haunting before moving in — and still chose to live there.

## CONCLUSION

Get your sage, psychic, medium, or religious person. Everyone has different ideas of how to get rid of ghosts or spirits in a house. That's up to the buyer!

Alas, our time in this course has come to an end. I hope you have enjoyed all of the different aspects of stigmatized properties that we have gone over throughout the course. We explored the definition of a stigma, what makes a property stigmatized, lasting effects of the stigmas, and how to price the property accordingly. We also discussed the National Association of REALTORS Code of Ethics (referred to throughout the course as COE or "The Code") and our duties of disclosure to clients. At the end of the course, we looked at some of the scary things that have actually happened to REALTORS throughout the country. We also discussed if stigmatized properties are a niche for you.

Make sure you keep this in mind: sometimes, you're not alone in a home. There are occupants that never left. BOO!

**REVIEW QUESTIONS ANSWER KEY:**

1. What word matches this definition: to describe or to identify in infamous / negative / opprobrious terms  
 A. Disclosure  
 B. Adverse Possession  
 C. Stigmatize  
 D. Summarize

According to Merriam Webster's Dictionary, the word stigmatize is a verb which means "to describe or to identify in infamous / negative / opprobrious terms." Now a lot of that may sound strange. Let's key in one word which will be the key term and theme that we'll use throughout this course --- **INFAMOUS**. Most stigmas came from something negative.

2. This type of stigma can include a drug den, brothel, or chop shop?  
 A. Debt stigma  
 B. Minimal stigma  
 C. Ghost stigma  
 D. Criminal stigma

A criminal stigma to a property is one that was involved with a crime or has ongoing crimes being committed in it. If a home was a brothel, a chop shop, or a drug den.

3. In this state, you do not need to disclose a death-related stigma:  
 A. California  
 B. Alaska  
 C. Indiana  
 D. Vermont

The only places where you have to disclose there was a death in the home/property is Alaska, California, South Dakota, and Vermont. Stigmas do not have to be disclosed in Indiana.

4. In this state, you do need to disclose a death-related stigma:  
 A. California  
 B. Pennsylvania  
 C. Indiana  
 D. Texas

The only places where you have to disclose there was a death in the home/property is Alaska, California, South Dakota, and Vermont. Stigmas do not have to be disclosed in Indiana.

5. How long do stigmas last on a property?

- A. Twenty years
- B. Fifty years
- C. 100 years

D. It depends

As we discussed earlier in the Tate house and Gacy house, those stigmas lasted due to the public nature and the extreme stigmas of the events. The short answer is: it depends.

6. Examples of material defects are all of the following except:

- A. Water stain on the ceiling from a leaking pipe
- B. Hole or rip in carpeting
- C. Broken glass in a window

D. Electrical issues behind paneling

A latent defect is a hidden structural defect that would not be discovered in an ordinary inspection. We, as agents, don't know what is behind the fake wood paneling in the basement. We don't know if the walls are drywall, plaster, etc. We don't know what the electrical looks like.

7. The duties that we owe to our clients include all of the following except:

- A. Disclosure
- B. Reasonable Care and Skill
- C. Fair trade
- D. Loyalty

If you recall your pre-licensing coursework, you may remember the six fiduciary responsibilities of an agent. They are obedience, loyalty, disclosure, confidentiality, accountability, and reasonable care/skill.

8. Article 2 of the REALTOR Code of Ethics

talks about the duty to:

A. Disclose

B. Be honest

C. Act within your license

D. Pledge to protect the client

Article two is a very important article. It can be summarized into one word— **DISCLOSE!** Or as I like to say, “**DISCLOSE, DISCLOSE, DISCLOSE!**”

9. The first/oldest funeral home was a

cabinet maker in \_\_\_\_\_.

A. New York City, New York

B. Richmond, Virginia

C. Washington DC

D. Williamsburg, Virginia

The oldest funeral home in the US was in Williamsburg, Virginia. It was started by a cabinet maker, Anthony Hay, who made coffins on the side.

10. The second step of the appraisal process is the \_\_\_\_\_.

A. Site Visit

B. The pricing step

C. Reconcile values for a final value

D. Creating the report

Step Two — The Site Visit - In this step, the appraiser will set up an appointment to visit the property. The first thing that the appraiser does is to pull up the MLS information for the property (if applicable) and the tax record information.

## **FINAL EXAM**

1. **The Peyton Randolph house is located in Colonial Williamsburg. It is known for this type of stigma.**
  - A. Phenomena/Ghost
  - B. Debt
  - C. Criminal
  - D. Extreme
  
2. **As mentioned in the text, this TV show focuses around a public stigma.**
  - A. Grey's Anatomy
  - B. The Wonder Years
  - C. Defending Jacob
  - D. Ghosts
  
3. **George Washington's famous house was known as**
  - A. Monticello
  - B. Mount Vernon
  - C. The White House
  - D. The Palace
  
4. **The place in Alexandria, VA where Washington hosted many "birth night balls."**
  - A. Mount Vernon
  - B. Wise Tavern
  - C. Monticello
  - D. Williamsburg
  
5. **In Indiana, do you have to disclose stigmas such as ghosts and murder?**
  - A. Yes
  - B. No
  - C. Only if it is gruesome
  - D. Only if it was in the news
  
6. **If you tell a prospective buyer that the occupant of a house died of HIV/AIDS, which law did you possibly violate.**
  - A. Equal Housing Opportunity
  - B. Doctors without Borders
  - C. Fair Housing
  - D. Regulation Z
  
7. **A latent defect is one that \_\_\_\_\_.**
  - A. Needs to be disclosed
  - B. Does not need to be disclosed
  - C. You can see
  - D. Leads to a roof leak.
  
8. **All of the following are psychologically affected properties except**
  - A. A scary looking house on the hill
  - B. A house with a haunting
  - C. Where someone died in the house
  - D. The location of a criminal organization
  
9. **In the case *Milliken v. Jacono*, it was a case rooted in a \_\_\_\_\_ stigma.**
  - A. Haunting
  - B. Murder
  - C. Debt
  - D. Minimal
  
10. **Ms. Milliken was from \_\_\_\_\_ where you have to disclose that certain stigma.**
  - A. Florida
  - B. Virginia
  - C. Pennsylvania
  - D. California
  
11. ***Milliken v. Jacono* took place in \_\_\_\_\_.**
  - A. Florida
  - B. Virginia
  - C. Pennsylvania
  - D. California

12. **This is a program designed by NAR to help agents complete a CMA, do marketing, and find information about different areas.**
- A. MLS
  - B. RPR
  - C. Torrens System
  - D. PCR
13. **Stigmatized properties can be described by all of the following except**
- A. Death
  - B. Public
  - C. Murder
  - D. Library
14. **This duty to your client is the degree of competence that a client entrusts to their agent.**
- A. Reasonable Care and Skill
  - B. Accountability
  - C. Disclosure
  - D. Obedience
15. **This duty is to act in good faith at all times, obeying the client's lawful instructions**
- A. Reasonable Care and Skill
  - B. Accountability
  - C. Disclosure
  - D. Obedience
16. **This duty is to put the client's best interest above any other interest.**
- A. Reasonable Care and Skill
  - B. Accountability
  - C. Disclosure
  - D. Loyalty
17. **The first step of the appraisal process is to**
- A. Define the problem and scope of work
  - B. The site visit
  - C. Form an opinion of value
  - D. The cost approach.
18. **When using this approach to value, you'd be appraising a shopping mall.**
- A. The cost approach
  - B. The income approach
  - C. The sales comparison approach
  - D. The market data approach
19. **The income approach is based on what appraisal principle?**
- A. Substitution
  - B. Market data
  - C. Supply and demand
  - D. Anticipation
20. **In order for a property to have value, it must have:**
- A. DUST BUNNIES
  - B. MITES
  - C. DUST
  - D. FLEAS
21. **This is the property's usefulness or intended purpose.**
- A. Demand
  - B. Utility
  - C. Scarcity
  - D. Transferability
22. **This is the need or desire for owning a property in a particular area.**
- A. Demand
  - B. Utility
  - C. Scarcity
  - D. Transferability
23. **This means that there is a finite supply in an area.**
- A. Demand
  - B. Utility
  - C. Scarcity
  - D. Transferability

24. **You use this/these approaches to value when you are looking for similar comps.**
- A. Sales comparison approach
  - B. Cost Approach
  - C. Income approach
  - D. None of the Above
25. **When reconciling values in an appraisal, the appraiser will use CIA. What does it stand for in real estate?**
- A. Central Intelligence Agency
  - B. Comp Inferior Add
  - C. Comp Introverted Add
  - D. Comp Is Awful
26. **When reconciling values in an appraisal, the appraiser will use CSS to help find the value of the subject property. What does it stand for in real estate?**
- A. Comp Superior Subdivide
  - B. Central Showing Service
  - C. Comp Superior Subtract
  - D. Comp Supersedes Subject
27. **What is the name for the appraisal form used mainly by Fannie Mae and Freddie Mac?**
- A. Uniform Application Process
  - B. Uniform Residential Appraisal Report
  - C. Narrative Appraisal Report
  - D. Uniform Appraisal Contract Report
28. **When pricing a property, it is important to determine:**
- A. An appropriate asking price or range
  - B. An acceptable amount, expressed as either a specific price or a range, for a lender to accept for a short sale
  - C. An acceptable amount, expressed as either a specific price or a range, for a lender to accept in a post foreclosure sale
  - D. An appropriate appraisal done by an agent
29. **The National Association of REALTORS states that a six month supply of inventory is a \_\_\_\_\_ market.**
- A. Buyer's
  - B. Seller's
  - C. Express
  - D. Normal
30. **A BPO is a(n) \_\_\_\_\_.**
- A. Broker Price Opinion
  - B. Appraisal
  - C. Not good to use ever
  - D. Indication of the market
31. **A BPO can be done by:**
- A. A sales person
  - B. Broker
  - C. Appraiser
  - D. A and B
32. **When the interest rate rises, this \_\_\_\_\_ the buyer's buying power.**
- A. Does nothing
  - B. Lowers
  - C. Increases
  - D. Has little effect
33. **This Law means that there is only a finite amount of property in a certain area.**
- A. Law of Scarcity
  - B. Law of Supply and Demand
  - C. Law of Physics
  - D. Law of Attraction
34. **Environmental hazards need to be disclosed no matter what.**
- A. True
  - B. False
  - C. Sometimes
  - D. It depends

35. **If you know a property is haunted and a buyer says that he doesn't want to live in a haunted house, what do you tell them?**
- A. Its OK, nothing ever bad happened here.
  - B. Call Scooby Doo and he will find any ghosts.
  - C. Ghosts and spirits are defined as non-material under most state laws. I'm advised to avoid discussing them.
  - D. The ghosts in this house are friendly and will really like you!
36. **The agent that sold the Conjuring House and the Lizzie Borden house is named:**
- A. Suzanne St. John
  - B. Lizzie Borden agent
  - C. Jessica St. Susan
  - D. Janice St. Vincent
37. **In a 2021 survey, this is the most frightening thing to buyers besides ghosts.**
- A. Asbestos
  - B. Waterdamage
  - C. Termites
  - D. Mold
38. **This percentage of Americans say they'd consider purchasing a haunted house.**
- A. 17
  - B. 52
  - C. 73
  - D. 88
39. **This percentage of Americans said they wouldn't pay full market price for a haunted house.**
- A. 43
  - B. 52
  - C. 73
  - D. 79
40. **This percentage of Americans say they have experienced a haunting in their home.**
- A. 44
  - B. 56
  - C. 24
  - D. 49





# PDH Real Estate

*Thank you for choosing PDH Academy Real Estate to meet your continuing education needs!*

**We are a leading provider of real estate education. You may be wondering “What’s the next step in getting my hours submitted to the Indiana Real Estate Commission?”**

**Here’s some important information for licensees completing their continuing education hours:**

- **PDH Academy will report your continuing education hours to the Indiana Real Estate Commission.**
- **Certificates of completion should be maintained for your records. The Indiana Real Estate Commission can request documentation of your continuing education hours at any time.**
- **For more information on renewing a real estate license in Indiana, please visit the Indiana Real Estate Commission’s website:  
<https://www.in.gov/pla/professions/real-estate-home/>**

**Also, don’t forget to complete your evaluation of the course(s).**

*We look forward to hearing from you!*

## Course Evaluation Form

### BOO! Don't Be Afraid of Stigmatized Properties

Name: \_\_\_\_\_

Completion Date: \_\_\_\_\_

- On a scale of 1 to 5 (1 being low and 5 being high) rate your instructor on the following:

Demonstrated knowledge of course content	1 2 3 4 5
Inspired interest in subject matter	1 2 3 4 5
Encouraged feedback on course content	1 2 3 4 5
Provided substantial resource material to support topic	1 2 3 4 5
Instructor's support of student	1 2 3 4 5

- On a scale of 1 to 5 (1 being low and 5 being high) rate the content & materials on the following:

Content was relevant; helped me to learn the subject matter	1 2 3 4 5
Supplementary course materials (case studies, articles, charts/graphs, etc.) were valuable	1 2 3 4 5
Review questions/final exam accurately measured what I learned	1 2 3 4 5
Content provided clear course objectives and expectations	1 2 3 4 5

*continued on next page*

**Course Evaluation Form**  
**BOO! Don't Be Afraid of Stigmatized Properties**

Name: \_\_\_\_\_

Completion Date: \_\_\_\_\_

- **On a scale of 1 to 5 (1 being low and 5 being high) rate the course delivery method on the following:**

Technology support needed/received while taking this course	1	2	3	4	5
Ease of use with course access, links, etc.	1	2	3	4	5
Satisfaction with the self-paced structure	1	2	3	4	5

**Please answer the following questions:**

**How was the orientation session accomplished:** \_\_\_\_\_  
\_\_\_\_\_

**Who answered your questions regarding course content:** \_\_\_\_\_  
\_\_\_\_\_

**Were they able to sufficiently help you? If not, please explain:** \_\_\_\_\_  
\_\_\_\_\_

**What suggestions do you have to improve this program:** \_\_\_\_\_  
\_\_\_\_\_