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Three important questions in a declining market

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Now that a majority of American markets are experiencing an adjustment period in property valuation, we as appraisers are starting to "scratch" our heads when analyzing data.

We are posed with many challenges in addressing value questions but also can relay answers to our clients that might make us seem a little bit more informed.

1. What kind of market conditions might affect an opinion of value?

With a market that favors the buyer, the neighborhood starts to glow with possible shortcomings. Are local businesses closing, relocating, or hiring? Are school systems failing against the state/national average? How about the vacancy rate? Remember to analyze data, not supply an unwanted bias or prejudice!

Some other tangibles might also affect market value. What about rising interest rates and lack of lender products? Are special products available for otherwise unqualified participants? The trickle-down effect on the variable rate loan that comes to term is revealing itself. The nasty 2 point rate hike that some borrowers were not prepared for might force unwanted inventory. With a decrease in value from the original, a new loan might be unattainable for this particular homeowner. This is a major problem being reviewed at all levels and might directly affect a growing number of communities in the near future.

2. How can we decipher market value?

This is such a broad question and many of us have our standard answers and techniques. There are some key things that really point towards a bright light which revels itself as the almighty opinion of value! Some initial questions to ask: when did they buy, what did they pay? Was the property listed in the past year? What is the inventory in the neighborhood? What is the average DOM (days on market)? Figure out the absorption rate and determine how long it will take for the available inventory to be absorbed. Is the housing stock supporting a realistic exposure time? Maybe a high listing price has created a stigma to the property? Check improvements, renovations, and what the market reflects.

3. The good old Automated Valuation Model (AVM). Useful tool or appraisers' worst enemy?

The AVM has been around for years and appraisers have been watching them evolve closely, always looking over our shoulder for the next AVM to wipe clean the appraisers' existence. Are they a useful tool? Sure they are. They are a great history report on recent or not so recent sales in the area. Of course they might not match up to your property but they do give a range of historical value. Do they work everywhere? What might distort an AVM's accuracy? A major market that my company serves is Boston, Massachusetts. Condominiums make up a majority of the housing stock. We consider data that includes things like floor-level (penthouse, basement, sub-basement), view (river, city, partial city, ect...), open parking, garage parking, roof deck, roof rights, front facing, rear facing, date and quality of renovation....and on and on. These distinguishing features are not typically taken into account in an AVM. Now I understand this is just an extreme example of an AVM's shortcomings and they might have a greater accuracy range in tract housing, but they do make a great addition to the lender's file for an additional rider.

Ok what is the bottom line here? The market is "dicey" in some areas and strong in others. Good, solid, accurate information equals good business. Will the market adjust itself in the long run? It always has, it always will, but when?

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