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Archambault says collecting and interpreting data for valuation can be challenging

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By Rey Archambault

Evaluating residential real property has always been a challenge. The process involves many components and the ultimate outcome, a credible and market supported opinion of value, hinges on proper gathering of pertinent data, analysis and development in conformity with industry standards. An experienced real estate professional should have little problem identifying the scope of an assignment, once the purpose of the valuation, identification of the client and the ownership rights to be considered are determined. Collecting and interpreting data can be a greater challenge, depending on market conditions at play and the availability of pertinent data. Here's where it gets tricky.

In more than 25 years appraising real estate, I can honestly say the past year has posed the greatest challenges to appraisers and brokers alike. Contrary to earlier down cycles where declines in value were clearly identifiable and more uniformly distributed across the broad spectrum of the market, a stabilization period became readily evident and incremental changes in value could be directly measured. The current real estate cycle has been far more difficult to measure and interpret. Only in those communities where a plethora of sales data is typically available (i.e. populated towns like West Hartford or Hamden to name just two which are contiguous to diverse urban Connecticut communities), have there been sufficient sales from which to base a comparison and discern meaningful trends. Smaller communities have seen significant declines in sales volume, translating into reduced data and skewed statistical patterns, necessitating the use of more dated sales often less comparable to the subject property than desired and located farther from the subject neighborhood - factors which can compromise the validity of findings and trigger mortgage underwriting problems due to secondary market requirements.

Of greater concern has been the less than uniform signals being sent by the market within the past year in general. Prior economic downturns resulted in stagnant housing markets, with real estate market resurgence often a prime architect in a recovery. Not so this time around. While most economists would argue the economic recovery began about one year ago, there is no clear indication the residential real estate market has bottomed yet in some areas or consistently stabilized in others, nor that we are close to returning to a "normal" market with respect to sales volume, let alone price recovery.

The federal government's attempt to get the housing market moving with an economic stimulus package in 2009-2010 seemed to be working, as MLS statistics bear witness; however, once the plan ended, sales activity flattened again in many areas of the state, with median prices tending to decline along the lines of the average tax rebate awarded, which in essence acted like a seller's cash concession, begging the question whether sales during this stimulus period should be trusted or weighted as heavily in subsequent valuations. Quarterly data since mid-2010 shows an uneven pattern of increases, which doesn't make much sense given the overall economic picture and more than ample listings inventory. Decreases, also perplexing given some recent positive economic data and the continued availability of cheap mortgage money, persist in some market segments, not always in predictable neighborhood areas or school districts. In short, housing market statistics can be very deceiving, particularly where one or two sales at the extreme high or low end can greatly influence median price data within a small sample set.

Depending on what set of statistics you rely on, foreclosure activity statewide varies, though it is clear from all data sets that foreclosures continue to be a drag on the entry level and lower median price range segments of the market. Recent decline in foreclosure activity is encouraging, though many reports maintain that the declines are due more to procedural measures by lenders who temporarily halted foreclosures, with a resumption in foreclosure activity likely near-term. Aside from foreclosure / REO sales and listings, the steady increase in short sales has stealthily influenced both entry and median price level markets. While serving to rid lenders of non-performing loans, reducing costs associated with full foreclosures, preserving the condition of mortgaged assets and salvaging the distressed seller's credit rating in many cases, these underwater equity deals are often more difficult to detect and blend more readily with "free-market" sales data, sometimes overlooked as distressed sales in valuations of real property.

So, we have mixed signals in terms of stable and declining values at the present time, not a lot of sales data to work with in many cases, uncertainty over economic factors and a huge question regarding foreclosure/short-sale activity going forward. All this while assuming the people who will be in a position to buy a house still have a job (hopefully the 4,700 threatened state worker layoffs do not come about), weighed against the fact that Connecticut is one of the richest states per capita in the nation. What do real estate professionals do to arrive at credible valuations these days? The same thing we were trained to do in the first place, only more carefully and more diligently. Look to the most recent sales and scrutinize them for validity and outside influencing factors. Have the temerity to exclude a sale that seems to be an aberration after careful analysis and verification. Use more verification sources than in the past (both published resources and long-time contacts). Pay specific attention to listings to gain perspective on trends, measure the effects of what is on the market competing with what has just sold and "age" the listings for time on market to determine to what extent further declines in list price may be in order to effect a sale and in the end, sit back and read what you just wrote and ask the question "does this make sense?". If the answer is yes, then chances are you've done your job well. The good news is the past four years has been an education experience like no other and things will only get better from here. Right?

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