

Statistics: Be careful, be informed, or be confused

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Do you sometimes feel bewildered by seemingly contradictory statistics regarding the housing market? One day things are said to be better; then on the next day, things are worse. To be sure, most reports do make sense if read carefully for their statistical measures, their time frame, and their regional context. But some news is not so clear.

The problem starts with the headlines, with their necessity to be catchy and short. If written unclearly, the story to follow may continue to miss some key information that would better explain things. Here are a few examples I have encountered:

- * "Home sales up." Hopefully, the article goes on to differentiate between the number of sales, or the rate of increase of sales, or the actual pricing. The writer also needs to say whether or not these are new homes or previously owned homes, to understand what is going on in the market. If prices are down, but the number of sales is up, the market may be clearing because prices are more realistic. If the subject is previously owned homes, it signals the clearing of inventory; whereas if it is new homes, it may actually signal new growth. You see what I mean.

- * The next unclear issue is typically time frame. Hopefully, as we read into the article, we understand that the author is writing about same month this year versus last year, or this month versus last month, or general trend lines over years. We might typically see the headline "Worse drop in home sales in two years". Obviously, if the drop is over a one month period, it can be an outlier from the overall trend. If, on the other hand, it is a continuation of a two year drop in market, it can be significant. Further, monthly sales volume and pricing have a natural curve month-over-month regardless of the economy, as every broker knows. Sales are always up in the spring, down in mid-Summer, modestly up in the fall, down in winter. Thus, a drop in sales volume from May to June would not be news.

- * Regional differences also need to be included in the analysis, since overall national statistics often cause a leveling effect. For example, in the past, the known trouble spots were California, Utah, Florida, and rust belt states. New York, Washington, D.C., and Boston seemed to be more immune to the downturn. Now, when read out of context, it would appear that the opposite is happening. If you read the headline "New York, D.C., and Boston decrease in sales and pricing, you might think that we are in for a national double-dip. But if you also read that Florida was modestly improving, you would surmise that those states which were down the lowest, have probably bottomed and are having modest increase over a very deep recession. The seemingly immune areas of the northeast cities have had such a relatively strong market that it was inevitable for them to experience a modest downturn.

- * This is one of the trickiest headlines: "While sales are increasing, they are weaker than anticipated". This one always causes a bad day in the stock market. But one has to ask what group was establishing the benchmark of anticipated sales? Was the benchmark based on a strong trend

line, or the month-over-month analysis as previously described? Were the anticipators economists or professionals in the field? Was the anticipated benchmark too aggressive, and even with sales significantly up, does a low measure against benchmark justify concern?

It's hard to summarize all of these seemingly contradictory viewpoints. Some are caused by bias; some are caused by poor writing or the lack of detail. Some are simply caused by busy people reading an article too fast. I conclude there are a few major areas or questions to ask when reading:

1. Is the article about the number of sales or price of sales? Trend or outlier?
2. What is the time frame? Is it month-over-month, or year-over-year?
3. What is the product? Is it new homes, previously owned homes, foreclosed homes or building permits?

A second reading of an article may make it all crystal clear. I am the first to admit that I often read too haphazardly, because of other pressing time constraints. To give the author the benefit of the doubt, assume that there has been good research, supported conclusions, and then form your opinion accordingly.

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