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Second home sales as a leading indicator

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Over our 30-year history appraising real property in southern Vermont we have experienced no less than five economic cycles that included a loss in value. Each time a recovery in price was first evident in a recovery of sales volume. This certainly seems to follow the standard economic principles which state new inventory will lag the market; therefore as buyer interest increases, the price of existing inventory will also increase. However, in a single property class; such as single-unit homes priced between two hundred and three hundred thousand dollars; an increase in volume large enough to result in an increase in price typically occurs within the previous three months. While this appears to be a significant lead time, many appraisers feel they are cursed to look at the market through a rearview mirror.

On basic terms our profession reflects the actions of a market; we do not make a market. We rely on closed sales at confirmed prices and financial terms. In general, when providing an opinion of market value we are limited to what we can prove about the market through an analysis of prior sales. Small market changes we feel early on may take a year of data to statistically prove at a reasonable confidence interval. As a result, while three months lead time seems like a lot, in practice appraisers often prove a change in the market well after it has occurred. However, there are several ways to improve our sensitivity to change. One is to find an early indicator capable of predicting a change in the future, one that keys us in to watching specific data up to a year before a change.

Our practice in southern Vermont includes several markets dominated by second home sales. These include homes located on the slopes of the Okemo, Killington and Pico ski resorts. Conventional wisdom states second home sales will lag the primary home market. This appears to be true when analyzed solely on price; second homes being a luxury item only satisfied after several more pressing needs. However when analyzed on volume over the last two economic cycles, second home sales predicted recovery (and collapse!) in the primary home market six to twelve months before any change in primary-home volume or price.

Watching this proverbial "canary in the coal mine" keys us in to expect changes in the primary home market months earlier than any other indicator. Good appraisers will become sensitive to the potential for change; they will collect and analyze those most important data before any change; and as a result, they will be able to prove market changes to their clients much earlier in the economic cycle. Average appraisers will continue to look in the rear view mirror, able to call turns in the market well after they have occurred.

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