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The spring market of 2013 is approaching

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I have been in this business for over 20 years and have seen the market change numerous times. Our last bubble brought us to the crash of 2008, where we found ourselves in a declining market after years of increasing values. The residential market has stabilized over the past couple of years with fewer and fewer short sales and foreclosures in 2012.

And now the spring market of 2013 is approaching. Over the past month I have been hearing many interesting reports that point to one thing - increasing market values. It may take a while before we can convincingly conclude the market is increasing, but leading indicators suggest we are on the way.

A few weeks ago on Bloomberg TV, John Burns of John Burns Real Estate Consulting, stated that we have the potential for another bubble with rates so low. He stated "If mortgage rates stay at 3.5% for several years, I believe home prices will skyrocket. Potential home buyers can purchase a 34% more expensive home today than they could at the end of 2008. With supply now dwindling, it is a seller's market, and price appreciation is only limited by what people can afford to pay every month."

It is the payment, not the price that is driving this new market. A 3.5% mortgage rate holds higher buying power: The same buyer can purchase a home for $300,000 as compared to $200,000 at a rate of 6%; this same low rate allows a 33% income ratio to be 23% of your overall income when purchasing a median priced home in the medium income range. Supply is currently low and demand is starting to increase as more and more people realize it is cheaper to buy than rent.

New construction has started to increase. From my personal observations, I have three new subdivisions being developed in my town, as compared to 1 small one last year, and the listing prices are rising. Just this weekend, I ran into a couple who are both brokers. They had just lost a real estate deal in a bidding war on a $700,000 home. A local builder who buys homes and renovates them told me he was involved in four bidding wars over the last few weeks.

This type of market is challenging to an appraiser. Brokers are nervous the appraisal won't come in, the bank wants to make the loan, and the buyer wants the house. I have been hearing a lot of concern from brokers and appraisers over the past few months about the appraisal "killing the deal" and can only predict this fear will increase into the spring market.

The appraiser is not in the market to "kill the deal"; however, as we know, appraisers work with historic information. Comparables are closed sales that occurred up to 1 year prior to the date of the appraisal, although we'd all prefer under 6 months for the best comparable. MLS listings are a good indicator and supporter of value and will be important in the upcoming months and should be considered when reconciling the final value. It is always challenging to appraise in this type of a market. I look at it as a time for the real expertise and analytical skills of the appraiser to be put to the test and as long as reasonable and supported data is analyzed, the market will progress as it should.

The MBREA offers great education and an online forum called myMBREA. This can be an invaluable tool for questions and opinions from other appraisers facing the same challenges we face today appraising in yet another changing real estate market.

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