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CELEBRATING 55 YEARS

No excuse to miss the ripple that is soon to arrive

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Famously, well at least famous up here in Vermont, Ethan Allen stood in a New York courtroom in 1770 and defiantly told the King's attorney general, "The gods of the valley are not the gods of the hills." At the time he was defending armed resistance from the Green Mountain Boys to the authority both New York and New Hampshire claimed over territory that would in 1791 become the state of Vermont.

While we no longer take up arms against our neighbors, in many ways Ethan Allen's words are still true today. The economic influences of the valleys, those large centers of population and commerce just to our south, are not the same economic influences we experience in the hills of northern New England. Dramatic market changes in the metro Boston and New York market are like dropping a large stone in a pond. There is great turmoil at the center, but as the waves radiate out they are displaced in time and reduced in magnitude. Sitting on the other side of the pond we notice the ripples some time later and to a much lesser extent.

We feel the delayed effect in rural Vermont, which we typically define as the entire state with the exception of the Burlington market, with moves in either direction. When the Boston and New York real estate bubble burst in 2007, we watched on the national news but our local real estate market continued to expand through early 2008. The wave of "No Doc" and adjustable rate residential loans that fueled the bubble never even had a chance to become an established lending product in our market as their ripple that peaked in 2006 abated before even reaching our shore. HUD reports residential prices in Massachusetts fell 14% between 2005 and 2010, while Vermont prices only fell 7%.

Our lows are not as low; our highs not as high. Our small community of appraisers took great interest in recent written reports, confirmed by our colleagues who work in the metro Boston market, of recent price increases and bidding wars for residential properties inside of I-495. This is the first notice that another stone has been tossed into the pond and we await the ripple. In our market, using the most advanced statistical tools we have, we can still prove and apply negative market conditions adjustments in almost all classes of residential property. But these data from Boston tell us to be on the lookout for change. This change will come first in vacation and second homes, where the mood of the market is set by buyers and sellers from the commercial valleys to our south. Next it will be felt in the sales of 'affordable' housing that we define as housing where the PITI (Principle, Interest, Taxes and Insurance) payment is equivalent to market rental rate for the same bedroom count. Finally, completing the cycle yet again, it will expand to the upper price ranges.

Over the past three market cycles, beginning in 1990, the time delay for the ripple to reach us was 6-9 months. However, recent data suggest the delay is increasing and we should look for change in the hills 12-18 months after change in the valley. This seems counterintuitive in a world that changes at an exponentially increasing pace, but may be due to the depth and breadth of the most recent recession. Either way, our job as appraisers is to reflect the market. As northern New England sits on the hill, with all the benefits of watching the stone hit the water in the valley, we have no excuse to miss the ripple that is soon to arrive on our shore.

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