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Business up, values up, sales units up?

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Most appraisers I speak to are buried with work. Refinance activity is brisk with mortgage rates at all-time lows. There's a frenzy of activity in the purchase markets, but many appraisers are refusing that work. The market is just too volatile. Just this morning, I heard on the radio that prices are up 12% over last year - and 27% over April of 2007? Wow!

How could that be? Well, some of the statistics are national figures. The national statistics might well be skewed by how far and how fast some cities and states fell back in 2008, and how fast they are now rising. New England - and particularly Eastern Massachusetts - didn't fall all that far compared to the nation as a whole, so we should not expect huge price increases as compensation. Like it or not, some Massachusetts laws and courtroom decisions kept many foreclosures from happening, and consequently reduced the inventory available for sale. Many of the homes that were previously underwater are approaching a value level where they can be sold without lender approval. And finally, unemployment statistics in Massachusetts were also not as bad as the rest of the nation.

So have values really increased 12% over last year? And are sales prices really increasing at a rate of 4% per month - another statistic I just heard on the radio? Probably not. Most likely, here is what is happening. First the economy is actually improving. The real estate market, the stock market, unemployment statistics, job growth, consumer confidence - just about everything - is moving in the right direction. Second, mortgage rates are at historic lows; buyers are afraid of missing the low rates - and are becoming comfortable with stretching a little on the purchase price because the monthly payment will be so low. What's a few thousand dollars extra over thirty years? Third, private equity is buying up the bottom of the market. Cash is king. REO and short sale properties are being taken off the market quickly, and this tends to firm up the bottom of the market.

But, what I see the most of is that the best properties are selling, and the junk is not. The most affluent communities are seeing the price increases. The newer homes and the homes with better amenities are selling more quickly and at higher prices. This is as it should be. The caution, however, is that buyers and lenders cannot rely on broad statistics regarding values. If every property in a small but relatively affluent community priced over one million dollars sells within thirty days for close to full price, it does not necessarily follow that the fifty homes priced at \$300,000 will sell any faster or any higher. The high priced sales drive up the average, and the average keeps looking higher because nothing in the middle or at the bottom is selling. Then sellers in the \$300,000 range raise their asking prices and wonder why the homes don't sell.

Broad statistics are encouraging, and I'm glad to hear the positive news. Good news, though, has to be viewed through the appropriate lens. An experienced appraiser should be able to provide that view. Don't overpay. And don't "overlend."

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