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# Financing and 2017 markets: Appraisers should use careful analysis of relevant data - by Bill Pastuszek

March 03, 2017 - Northern New England

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We know that 2016 was a strong year for the housing market in all sectors, with a continuation of a seller's market. The expectation for 2017 is a little less certain.

Nationally, the prognosis is for growth in secondary markets, or in markets that so far have not shown the kind of growth seen in major metro areas. Multifamily properties in urban areas are also projected to continue strong.

Will rising interest rates serve to moderate market activity? It depends on how much and how high.

The beginning of this year has seen slower housing activity than in recent years. One professional organization noted, that "most everyone is noting how slow it has become." According to the Mortgage Bankers Association, total loan volume is down 21% from a year ago and refinancing is down 40%.

From a CNBC article, "lackluster refinancing largely drove the weakness in applications. That part of the mortgage business began dropping off a cliff when interest rates jumped, right after the presidential election." Lest you think that the sales market is unaffected, the MBA notes that "purchase applications are not increasing as fast as is typically expected at this time of the year."

There is legitimate concern that the Fed may react to inflationary signals with further rates increases. "Rates were up last week as markets assessed that the Fed might increase rates sooner than expected on the strength of a recent pick-up in inflation readings," the Mortgage Bankers Association's spokesman said.

Of note, purchase applications are less in reaction to higher rates, and react more to the tight supply of homes for sale in nearly all markets. The article notes, "mortgage rates have moved very little since the big November jump, but local markets across the nation are showing far fewer listings now compared to a year ago. While new supply will surely hit the market along with warmer temperatures, it will not be enough, by far, to meet the demand."

On the other hand, local conditions may vary from the national average. The Massachusetts Association of Realtors (MAR) reported recently that "ongoing buyer demand pushed pending home sales up in January more than 10% compared to the same time last year." Further, the press release notes, "Realtors confidence both in the market and in home prices was positive in January."

In a January report, the Warren Group observed that there were "5,129 single-family homes sold in Massachusetts in December [2016], compared to 4,924 in December 2015, a 4.2% increase. This marks the highest December sales amount since 2004 and the third highest December total on record."

The median sale price rose by 1.5%. Year-to-date, sales were up by 11.3%. The number of condo sales were up 8.5%.

Warren Group's CEO notes that "after robust sales in the first six months of 2016, the market cooled a bit in the second half…Nevertheless the number of single-family home sales for the full year increased by more than 10% for the second year in a row."

There doesn't appear to be a trend toward raging housing price appreciation. There are exceptions of course, particularly in some of Boston's urban markets. So, even in the face of continuing tight inventory, there is some underlying logic to the housing market trends. That would have been hard to say 2-3 years ago.

The Case Schiller Index for Boston shows a moderate increase. It's interesting to compare the current upward trend in the graph to the steep declines the graph shows during the housing collapse. The increase tends to demonstrate reasonably stable, but positive, market conditions.

The FHFA index shows +-6% growth. But enough numbers: let's see what the spring market brings.

The return of mild winter weather has reinvigorated several construction projects in my neighborhood that didn't get closed in before the start of winter.

What should be made of these markets? Don't generalize from broadly generic data. On the other hand, relying solely on three comps may also be peril. In 2017, use all available tools and understand how and when they should be used. Careful analysis of relevant data creates precision in measuring market dynamics. Real estate markets are disorderly but that doesn't mean appraisers should be in analyzing them.

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