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History repeats itself when it comes to market cycles - by Jim Kasparian

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Jim Kasparian,
Kasparian Appraisal & Consulting

Here we are again...1998!!! Values in the Greater Boston area are showing a continued increase with no rhyme or reason. The buyers' pool is going over asking price repeatedly, and sometimes properties are not making it to the open market! Does this seem familiar to you? If so, here comes the old adage, which may be even more familiar to you..."History Repeats Itself."

If you have been in the industry since the 90's, you are in the middle of a complete cycle. With the closing of 2016 and the onset of 2017, the market for residential real estate has begun to boom. Inventory was decreasing in a lot of communities, while prices continued to climb. Was this the result of any election which may have changed the economic climate? Has our dollar strengthened? How about the economy in general?

Sometimes, we need to step back for a second and reassess the little things. Never mind analyzing the bond market or the Dow; instead ask: How are those gas prices doing? Are Home Depot, Costco, and Lowes busy today? Go to your local Mexican chain restaurant, and see if they are crowded on a Thursday. These all may be indicators of a generalized economic climate.

Of course this creates the same difficulties for the local appraiser in 1998; How can I justify the sale price?? If it is a commercial property, it may be a little easier. The capitalization rate might be lower with adequate justification. New leases might also point to a new benchmark. Of course the residential appraiser may start getting these comments from brokers: "It was a bidding war," "there were 10 offers," or believe it or not, I myself got this one a couple times now... "There are no comps, and I don't know how you're going to do it?!" Um...great and thanks for that!!

A rule of thumb most appraisers keep in the back of our minds is "what is the highest priced comparable home to sell?" Which also means in simpler terms; Don't over value the neighborhood. This may contradict the brokers, who tend to have overoptimistic expectations for their listing. So what is an appraiser to do? I am definitely not going to say go into your local Border Cafe and see if its packed on a Thursday then justify it with a "there ya go."

An appraiser must identify the problem, analyze current and historical data, and report their conclusions. This means identify the local market trends. What are the price trends for the past 2 years for the neighborhood (or condo development)? What has the absorption rate been reflecting? After tracking and adjustments, can you justify your conclusion?

An appraiser may think before making the opinion of value, the buyer may, or will pay the difference anyway; thereby set a new price benchmark. This thinking could have merit, but leads to inconsistency and inaccuracy, and one must not handcuff the natural increasing trend either. Being overly conservative is the cousin to overvaluation. This leads us to that awkward adjustment; the time adjustment. Banks do not like it, and Appraisers don't care for it. Simply put, it is a measurement of sale price increase (or decrease) over a small period of time. If you are forced to make these adjustments after assessing your data, be sure you can indeed support the adjustment. A simple formula could be: choose two properties between two periods of time, make them as relative as possible by making warranted adjustments, and then determine the percentage of increase during that time. (Good idea to review your appraisal class notes here). Another option is to utilize a higher-priced neighborhood or town, which could prove easier by way of bracketing your value, but not without risk. Care must be taken here, so as not to contradict, or suggest that your subject property is now reaching into a higher-valued neighborhood. It is very important to make adequate, warranted adjustments to this comparable, which includes location. Beware, yet another risk comes in to play here; a case could be made for the subject now being in an area of equal value. A problem/topic for another time.

In conclusion, yes, we are well into 2017, and yes, it might be another price cycle. However difficult this may be on the appraisal end, we should remember, it sure makes it interesting in our profession, and who knows? We could take this ride to say 2022!

Jim Kasparian is the owner of Kasparian Appraisal & Consulting, Burlington, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540