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The Market and the market: bridging the gap - Part 1

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The following observations focus on residential (1-4 units) markets since that is where the greatest pain is being felt and these markets are deeply immersed in a long downturn. I am constantly amused by the gap between perception and reality. See below.

The market and the markets. While it is useful to try to understand what the media thinks people should be thinking about real estate (perception), there is no the market. There are only markets (reality). Keep this in mind

The Market

Intelligent observers, skilled analysts and competent practitioners understand this. The public doesn't necessarily understand. The media uses statistics and generalities to make points and create content that is easily understood.

On the other hand, it is necessary to consider the market in such broad terms. This is because it is useful to think this in these simplistic terms in order to understand something that is not at all simplistic or easily able to be boiled down to a sound bite.

All Real Estate is Local

Yes, except that all markets are much more closely tied to together today. They are linked and interconnected by better information, uniform financing, and by buyers who move between markets with greater confidence.

This is but one reason how we got into this swamp today. The global village is alive and well. There's more data than ever out there and more ways and reasons to misinterpret and mishandle it than ever.

Real Estate is Local but Markets are Linked

To be sure, local markets are subject to specific localized influences. That's why firsthand local knowledge will always be a key factor in evaluating or valuing real property and never will be totally replaced higher level, aggregated systems. But it's dangerous to think that the micro view is the only consideration. Buyers, sellers, and other market participants are influenced and affected by the larger trends out there and it would be foolish and unwise not to consider the effect of these influences explicitly.

Real Estate is a Commodity

We've been told that each piece of real estate is unique and that real estate can't be treated as a commodity. This last debacle - which is far from being over - shows once again that while real estate was treated like a commodity (by lenders, investors, buyers, etc.), it needs to be viewed in a very special, if not suspicious, way because it has the disturbing habit of not acting like a commodity from time to time with rather remarkable and unpleasant consequences.

All Real Estate is Not Local

Appraisers earn their living making sense out of localized activity. However, many market participants - let's include appraisers, lenders, among others - have adopted a head in the sand attitude by failing to connect the dots and linking local markets to what is going on in the rest of the neighborhood, community, county, region, and nation. There is interconnection.

Understanding the Local Market

Very localized market data needs to be interpreted within the context of the larger market. There are many sub-markets that are not showing precipitous price declines and extended marketing times and high rates of foreclosures. These markets are performing reasonably well in comparison with the market and with other markets. It's crucial to understand and identify these sub markets and treat their performance recognizing the larger context.

Too much appraisal analysis is focused on small data sets prone to errors and bias of various sorts. Three sales and a listing does not make a market. In these situations, an effort needs to be made to understand and explain the characteristics of the relevant market.

Part two will appear in the August 8th edition of the NEREJ in the Appraisal and Consulting section

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