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## **Manchester and surrounding area: Appraiser's perspective - by Ron Lavalley**

June 12, 2020 - Appraisal & Consulting



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The residential real estate market in the greater Manchester and surrounding area markets has been strong for the past 18 – 24 months. The first quarter of 2020 showed continued appreciation in values with rates of increase in the range of 4% to 6% annually in the residential markets, which include single family, condominium, and 2-4 family properties. With continued low home mortgage interest rates and unemployment at historic lows, the numbers of active buyers continued to increase. However, the volume of sales has not increase proportionately, illustrating the reduced available inventory that has been cited repeatedly in past months.

I work predominantly in eastern Hillsborough, Merrimack and Rockingham counties. While I cannot speak for all appraisers, the data I analyze and use in my report preparation has often shown reduced volumes of closed sales compared to the same month in the prior year. Further, in many cases that volume was lower when compared to the prior month. Even in months when one would typically expect to see an increase in month-to-month sales volumes (i.e. the spring market months compared to the winter market months), there have been decreased sales volumes. Sales values, however, have continued to increase month to month.

With available inventory well below normal volumes over the past year, new listings that are “move-in” ready or “recently updated” generally are under contract within days and sometimes hours of hitting the market, reflecting the steep competition for the limited available inventory. In many cases when appraising a property for a purchase transaction I am finding that there were multiple offers, resulting in bidding wars, which drive up the contract price.

These bidding wars can create problems in that an appraiser’s opinion of value is based on similar closed sales. Assuming the listing was priced competitively based on an accurate and sound market analysis, sales contracts in excess of list price many times have no market data to support that contract offer. As a case in point, recently I completed an appraisal for a sales transaction where there was a bidding war which escalated the contract price \$15,000 over the list price of \$394,900. Unfortunately, there were no comparable sales to support the contract. When the comparable sales analysis was completed it was apparent that the list price was in fact a solid and competitive price based on similar sales and listings in the market area. The final opinion of value in the appraisal report could not be reconciled to the Purchase and Sales Agreement, however it was spot on with the list price.

In addition, many lending institutions require comparable active listings be included in an appraisal report as additional support for the opinion of market value. Considering the reduced inventory, finding current comparable active listings becomes especially challenging, and sometimes is just not possible.

The bigger issue moving forward is the impact the COVID-19 pandemic may have on the residential housing market. Although sales data for April 2020 showed continued increase in sale values when compared to April 2019, the volume of sales was lower than April 2019, and lower than March of

2020. Many of those sales contracts related to the April closings were likely effective prior to declaration of the pandemic, and prior to any effect of the “stay at home” order issued by the governor. If I were to measure the impact based solely on my workload throughout the month of May 2020, I would have to say it has been apparent but not significant. The final analysis for the sales of residential properties during the month of May and June 2020, will certainly provide better insight into what might be expected over the summer months.

In my day-to-day operations and dealings with Realtors throughout these market areas, I am hearing that they remain busy, albeit with a more restrictive pace. The buyer pool has decreased due to current economic factors, and the social restrictions have impacted buyers’ desire and ability to view properties. The available inventory continues to be lower than normal and so the competition for housing remains higher than normal. Similarly, in my day-to-day dealings with other appraisers in the market areas I cover, I am hearing the same concerns regarding a lack of recent comparable sales and lack of comparable active listings. The bidding wars incited by the lack of inventory are pushing up the contract prices, however, there is often a lack of closed sales to support the contract, despite general recognition of the increased demand for the limited supply.

The initial impact of the COVID-19 pandemic will not be determined for at least another one to two months, and the full impact will likely not be known until we enter the fall and winter markets. However, with unemployment currently at record high levels, it is reasonable to conclude that a slowing of the market can be expected. The extent and duration of that slowing will only be known after a return to some level of normalcy. When normal or near-normal conditions return, the markets will react accordingly, however the extent and duration of that reaction is yet to be determined.

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