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Housing market observations - by Bill Pastuszek

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It's possible to generalize that all real estate markets are suffering from a severe demand/supply imbalance. This imbalance has served to drive buyer behavior and prices. It may take years to produce enough product to iron out this imbalance. In the short term, upward pressure on prices and generalized inflationary pressures in the economy could create a real estate "correction" touched off by rocketing prices and seemingly insatiable demand.

Housing. The Mass. Association of Realtors (MAR) notes in an August 2021 press release: "Median sale prices continue to drop, but remain higher than the year's previous data shows. MAR reports median price for single-family homes is up 12.2% and 12.4% for condominiums, when compared to August 2020... The median price for single-family homes was \$552,000, and condominiums at \$480,000." Prices in general did vary greatly from June 2021, when prices hit an all-time high.

"New listings for single-family homes were down 8.4% and condos listings decreased 14.7% compared to the same period last year. Closed sales decreased by 9.7% for single-family homes, compared to July 2020, while closed sales for condominiums took a slight rise of 1.2%."

The Warren Group reports in September: "The median sale price for both single-family homes and condominiums increased in August on a year-over-year basis as inventory levels across Massachusetts continued to dwindle, according to a new report from The Warren Group, a leading provider of real estate and transaction data. [This represents the second consecutive month of sales decline.]

Single-family home and condo sales were negatively impacted in the second quarter of 2020 as a result of economic uncertainties surrounding COVID-19. In order to give a more accurate representation of activity in the Mass. real estate market, we are providing two years of data as a comparison in this month's sales report."

With respect to single-family homes, The Warren Group goes on to say that sales activity decreased 6.2% from August 2020 to August 2021. In August 2021, the median single-family sale price spiked 11.5% (year-over-year) to \$535,000, up from \$480,000 in August 2020 and up 27.4% from August

2019 when the median sale price was \$420,000. This marked a new all-time high for the median sale price for the month of August and the fifth consecutive month that the median single-family home price has hovered above \$500,000.”

The Warren Group CEO states: “prices have gotten higher than a lot of people can afford. Increasingly the people who can afford to buy have already done so and the rest are ready to give up on home shopping.” (Another article might consider what is going on with rents as a consequence.)

The above signals, along with other indicators, that some price leveling off may be occurring: let’s wait and see on that. There are certainly enough buyers that have purchased at the market’s very tip to cause concern if markets begin to cool off more meaningfully.

Residential Appraisal Issues – Housing. A recent Wall Street Journal article (Soaring Home Prices are Roiling Appraisals and Upending Sales) notes: “An unusually high number of homes across the country are being appraised below their agreed-upon sales prices, causing a number of deals to collapse.”

A seller is quoted in the article as saying: “This whole appraisal process, it’s just so subjective.” [this quote just had to be included!] A chief appraiser notes that within recent memory, there isn’t a time when there have been so many buyers who are willing to pay so much more than what the market data indicates.

The article goes on to say that appraisal issues were a “top reason cited by real-estate agents in August for sales in contract going awry. A survey by the National Association of Realtors showed that 12% of contracts that were closed or terminated faced appraisal issues that month, up from 9% in August 2019.”

Real Estate Lending, Brokerage, Real Estate Markets. There is a long and sad history of public and private discrimination as regards real estate. It is possible to argue that government itself installed and promoted discrimination in real estate markets. We are still trying to overcome its effects decades and laws later.

Real Estate Appraisers. As most real estate appraisers will tell you, their opinions reflect the market. And that is true. But, is it possible that real estate appraisers have to work harder than ever to overcome bias – or the perception of same – in arriving at an opinion of value via the appraisal process? (“opinion” underlined for emphasis.) Note that appraisers develop opinions that are supposed to be independent, impartial, objective and without bias. This is an ideal that appraisers should strive for: it’s a goal and part of an ongoing process to arrive at that opinion. An opinion suggests that there may be other, equally valid opinions.

The real estate appraisal profession, together with other professions, is examining perceptions suggesting that we re-examine how we arrive at our opinions – there’s that word again – and some observers believe there are instances of biased behaviors. Whether valid or not, a number of media

presentations have suggested that these behaviors may be more widespread than previously believed. Some critics have provided narrative evidence, and some offer more quantitative explorations. Fuller understanding of the issues and their implications are in the process of being formed.

In fast moving markets, and in markets where the appreciation cycle may be showing signs of maturing, appraisers (and valuation-related professionals) need to focus on the specifics of the market in which they are working, making sure that relevant (and very recent) data is being utilized, and to ensure that analysis and opinions reflect current market perceptions and are free of preconceptions.

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