

THE FORSYTHE APPRAISALS FLASH

Appraisal Insights for Real Estate Professionals

The Caveats of Market Statistics

By: John Forsythe, President

"Home Prices Decline by 24%" screamed one newspaper headline in a small community paper in California recently. Similar proclamations have been seen in news stories throughout the United States over the last months. Without question, in many areas there have been declines in single family home prices, fueled by tightening credit standards and higher than normal foreclosures, which have resulted in a higher inventory of homes for sale. In situations where supply exceeds demand, economists typically refer to it as an "out of balance" market or more commonly known as a "buyer's market." Caution should be used when relying on such reported trends.

While there are several methods of calculating price changes, one method to be very leery of is when the average sales price is calculated solely on the basis of the average sales price for a given market area. Having few data points, dominant outliers or comparing dissimilar properties can greatly skew the results. While acknowledging the following example is exaggerated and simplistic, it is, in form, used by many reports.

The graph represents sales in the same geographical area over two time periods:

	Year A		Year B	
House 1	New, 2400 sq ft	\$350,000	5 Yrs, 2200 sq ft	\$285,000
House 2	5 Yrs, 2200 sq ft	\$300,000	15 yrs, 2000 sq ft	\$256,000
House 3	15 yrs, 2000 sq ft	\$270,000	60 yrs, 1400 sq ft	\$149,000
House 4	60 yrs, 1400 sq ft	\$150,000	85 yrs, 1150 sq ft	\$120,000
Average \$ Price		\$267,500		\$202,500

An analysis of the data has been reported by some as roughly a 24% decline (the percentage difference between \$267,500 and \$202,500). A more analytical reading would reveal that there have simply been more, less expensive homes sold in Year B than Year A, which is different than concluding a decline of 24% in all home values in the area. In fact, looking at the 5, 15 and 60 year old homes, it would seem to indicate that newer homes (five and fifteen yrs) declined by 5%, and older homes remained stable. The same logic applies to many of the studies that had property owners believing that their homes had appreciated by double digits, when, in fact, it was a different set of properties that had significant appreciation, or that there had been more buyers of higher priced properties, thus skewing the overall average for the entire area upward.

Many industry articles are presented with well-researched and statistically valid results regarding current market conditions. However, the caution given is to make certain that lenders understand the depth of the data researched and the subsequent assumptions made. When making important lending decisions, keep in mind that a qualified, experienced appraiser will provide the most detailed and accurate market analysis available.

Do you have an idea or topic of interest you'd like to learn more about? Please e-mail us at forsytheinfo@forsytheappraisals.com.



September 10, 2007
FORSYTHE APPRAISALS
SERVES AN AREA NEAR YOU!

- Austin, TX
- Boston, MA
- Chicago, IL
- Cleveland, OH
- Colorado Mountain
- Colorado Springs, CO
- Columbus, OH
- Dallas, TX
- Denver, CO
- Des Moines, IA
- Detroit, MI
- Duluth, MN
- Hartford, CT
- Houston, TX
- Indianapolis, IN
- Jacksonville, FL
- Las Vegas, NV
- Los Angeles, CA
- Miami, FL
- Milwaukee, WI
- Nashville, TN
- Orlando, FL
- Phoenix, AZ
- Providence, RI
- Rochester, MN
- Sacramento, CA
- Saint Cloud, MN
- San Antonio, TX
- San Diego, CA
- San Jose, CA
- Seattle, WA
- Southern Minnesota
- Spokane, WA
- Tampa, FL
- Tucson, AZ
- Twin Cities, MN