Market Analysis in a "HOT" Market

BY: JOANN APOSTOL

2021 HOTTEST ZIP CODES

- Realtor.com Article published August 12, 2021
- Zip 80916 – East Colorado Springs, CO named #1
- News that implies a market is good, helps and hurts the market
  - News in January 2021 said there was an undersupply of homes, but it's JANUARY!
- Read the article to see what they are measuring
  - This measure considers unique viewers per property on Realtor.com and the pace of the market measured by the number of days a listing remains active on the website
  - Not really a measure of "HOT" from an appraiser's perspective
- Appraisers should do a good analysis to see how this news impacts the buyers and sellers in a market area.
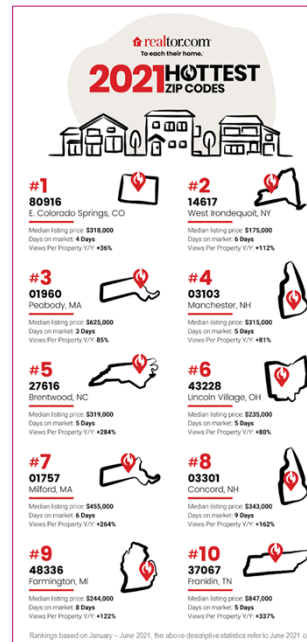
Slide 1

What is a HOT Market?

What are the appraiser's responsibilities for analyzing the market?

What data should be analyzed?

What should the appraiser consider when analyzing the market?

Great Questions!

Slide 2

What does USPAP say about Market Analysis?

STANDARD RULE 1 AND ADVISORY OPINION 22

Standard Rule 1

- Standard Rule 1-3: Market Analysis and Highest and Best Use
  - Required when necessary for credible assignment results in a market value opinion
- Must identify and ANALYZE the effect on use and VALUE of:
  - Existing land use regulations
  - Economic supply and demand
  - Market Area Trends
- Market area trends include remodeling, scraper, interest rate, concessions, and any trend in value from the four forces of value - PEGS

Appraisal 101 Basics

- Four Forces of Value – PEGS
  - P – Physical or environmental
    - Colorado is a great physical location and has for years brought buyers from other states
    - Many outdoor recreation activities, parks, open spaces and great weather (most of the year)
  - E – Economic
    - Colorado has a great economic environment as well – ample jobs and job possibilities
    - Interest rates are historically low – drives demand
    - Affordable homes
  - G – Governmental
    - 80916 zip is close to Airport and Peterson Air Force Base – allows for good employment by government agencies, defense contractors
    - Top rated schools

Appraisal 101 Basics

- ► Four Forces of Value – PEGS
  - ► S – Social
    - ► Homeownership less than 51% of residents own a home
      - ► Not surprising given the transient population close to the Air Base
    - ► 40% of younger millennials own a home
      - ► Has been historically the case as millennials have delayed home ownership
    - ► 74% of the population is under age 45
      - ► Again, not surprising due to the air base.
      - ► Key factor as millennials have begun entering the housing market
      - ► Family formation has changed since COVID in this age group

Advisory Opinion 22

- ► Scope of Work in a Market Value Assignment
- ► Market Value assignments are unique
  - ► Based on a market perspective or typical buyer premise
  - ► Typical or normal for the marketplace of the subject property
- ► The Market Value Definition used has great importance on the Scope of Work
- ► The "Conditions" in the definition are key to development of the value
  - ► Requires an understanding of how buyers and sellers are likely to respond to a subject property under the conditions

Advisory Opinion 22

► Conditions in a market value definition include:

► Relationship, knowledge and motivations of the parties

  ► Knowledge is about the subject property, the market for the property and alternatives available

  ► The appraiser is expected to be at least as knowledgeable as the typical market participant

► Knowledge of the subject property

  ► Identifying the relevant characteristics

  ► Characteristics that significantly impact value

Advisory Opinion 22

► Knowledge about the Market

  ► May be little than what you already know

  ► Good analysis may reveal things that test your knowledge

  ► Recognize when additional research is necessary

► "A competent, professional appraiser will not assume knowledge merely for the sake of convenience." AO 22, page 120, lines 147-148

► Professional discipline should prompt the individual to ensure the market data is credible, relevant, appropriate, adequate and as current as possible.

Advisory Opinion 22

- Knowledge of Alternatives
  - Adequate research to ensure knowledge of the supply and demand that are relevant to the time frame and property type involved
  - Gathering, verifying and evaluating data about "competitive" properties
- Conditions of Sale
  - Develop an opinion of reasonable exposure time
  - You should avoid presuming that a market analysis in one area is typical for all areas
- Analysis of sales data can yield numeric results, but lack meaning with out the understanding of the market conditions that generated the sales involved

Advisory Opinion 22

- What is a typical market and typical market conditions?
  - It DEPENDS!!!!!!
- As the market changes, the typical market also changes
  - Different price ranges, size of homes and locations are reacting differently
  - A market analysis should be done more often in a quickly changing market
- Now we are seeing above asking price offers, appraisal gaps, no appraisal clauses
  - The typical market includes a very low supply with an increase in demand since mid-2020
  - Has COVID-19 impacted the number of buyers? YES!!!!!
  - It's important to recognize the changes in the market.

What data should be analyzed?

GATHERING AND ANALYZING DATA

Data that should be analyzed

► Analyze closed sales
  ► For more than the last twelve months
    ► Historical trends like seasonal trends are not evident in only the last twelve months
    ► Trends are better over a longer period of time
  ► Analyze similar time periods
    ► Consistently analyze by month, quarter or year
    ► Can't compare different time periods
► Analyze active listings and pending sales
  ► These indicate a lot about the health of the market
  ► Not analyzing these is not looking at the whole market

Data that should be analyzed

- Market indications to analyze
  - Demand – number of sales occurring over time
    - An increase indicates a healthy market and demand increases
  - Marketing time
    - Low marketing times show a healthy, active market
    - Does the MLS report as list to contract or list to close
    - Be aware that reasonable exposure time is from list to close
  - Sales to list price ratios
    - Vary in different market conditions
    - Analyze how concessions are impacting these

Data that should be analyzed

- Market indications to analyze
  - Size of homes in the neighborhood
    - The size helps understand the typical buyer in the neighborhood
      - Small homes attract first-time home buyers and smaller families
      - Larger homes attract a different buyer depending on the location
    - Different buyer types have different housing needs
  - Age of homes in the neighborhood
    - Age of homes can tell us if there may be other trends occurring
    - New neighborhoods often react differently than older, existing neighborhoods
  - Style of homes in the neighborhood
    - Different buyers purchase different housing styles based on buyer preference

Using Statistics from other sources

- ▶ Multiple Listing Services
  - ▶ Understand how they calculate their numbers
    - ▶ Many calculate sales to list price ratios on the 1004MC by taking the median sales price divided by the median list price
    - ▶ Mathematically incorrect methodology
  - ▶ Charts and analyses may be limited
    - ▶ They may not be very useful
    - ▶ Sold price compared to assessed value
  - ▶ Typically based on all sales in the area unless you can customize
    - ▶ Can't eliminate outliers
    - ▶ Can't analyze the different types of sales
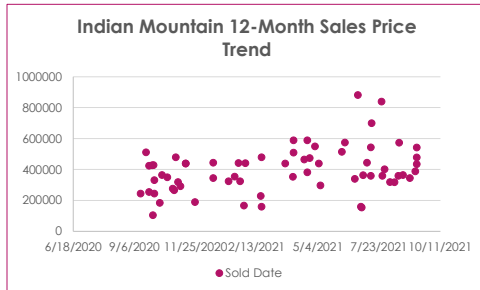
MLS Statistics
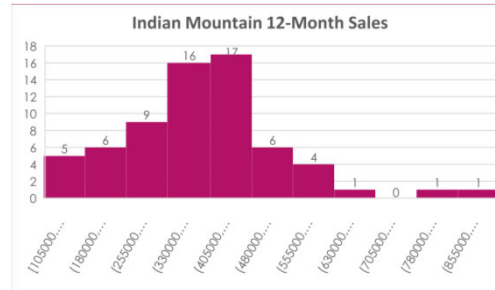
5-Year Median Sales Price

Year to Date Sales Price

Charts Created from MLS Data

12-Month Sales Price Trend

Indian Mountain 12-Month Sales Price Trend

Number of Sales by Price

Indian Mountain 12-Month Sales

Market Analysis

Status: Active (26)

	Beds	Baths	Sq Ft Total	List Price	Sold Price	Price/SqFt	SP/LP%	Acres	Price/Acre	DOM
Min	1	1	712	$199,900	-	$161.12	-	1.02	$46,706	2
Max	6	4	6,188	$997,000	-	$560.39	-	7.65	$541,193	126
Avg	3	2	1,922	$553,762	-	$321.71	-	3.14	$243,214	49
Median	3	2	1,740	$537,450	-	$309.30	-			40

Status: Pending (13)

	Beds	Baths	Sq Ft Total	List Price	Sold Price	Price/SqFt	SP/LP%	Acres	Price/Acre	DOM
Min	1	1	536	$170,000	-	$189.73	-	1.28	$33,038	3
Max	3	3	2,320	$580,000	-	$671.46	-	9.02	$319,531	89
Avg	2	1	1,064	$352,338	-	$360.68	-	3.57	$148,654	28
Median	2	1	896	$329,000	-	$338.82	-			25

Status: Sold (66)

	Beds	Baths	Sq Ft Total	List Price	Sold Price	Price/SqFt	SP/LP%	Acres	Price/Acre	DOM
Min	0		439	$125,000	$105,000	$114.49	84.00%	1.00	$34,277	
Max	4	3	3,188	$899,900	$882,500	$645.36	113.71%	14.00	$542,500	498
Avg	2	2	1,405	$399,886	$396,420	$307.55	98.92%	3.03	$175,561	50
Median	2	2	1,240	$379,500	$373,750	$289.63	100.00%			13

Status: All (105)

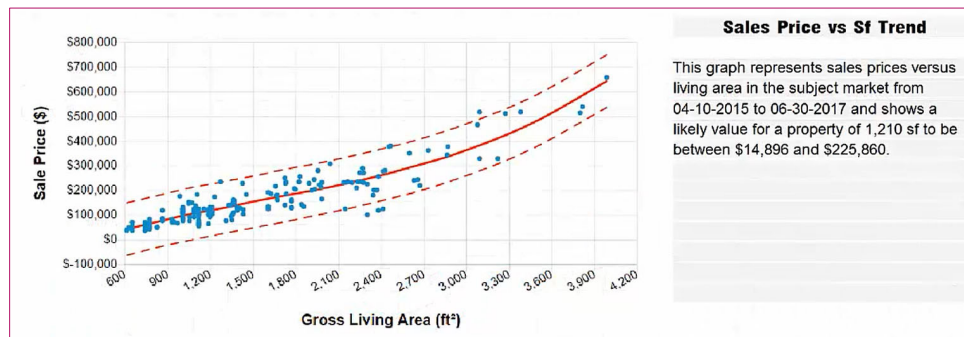|	Beds	Baths	Sq Ft Total	List Price	Sold Price	Price/SqFt	SP/LP%	Acres	Price/Acre	DOM
Min	0		439	$125,000	$105,000	$114.49	84.00%	1.00	$33,038	
Max	6	4	6,188	$997,000	$882,500	$671.46	113.71%	14.00	$542,500	498
Avg	2	2	1,507	$432,102	$396,420	$317.63	98.92%	3.13	$188,982	47
Median	2	2	1,312	$410,000	$373,750	$303.57	100.00%			19

Software Statistics - Titan

- Have some flexibility in analysis
  - Also have limited flexibility in chart types
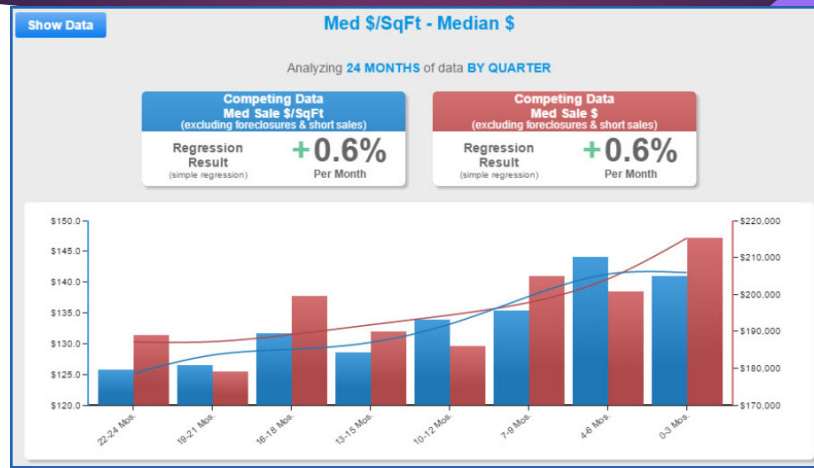 - Charts may not provide good market indications

Sales Price Trend
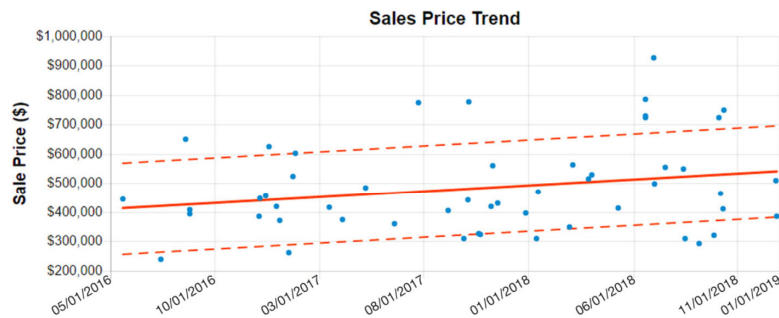
This analysis of prices in the subject market from 05-01-2016 to 12-28-2018 yields a price range of $385,563 to $697,748 for properties in the subject market as of 01-01-2019.

Titan Statistics

- Enters information into your report for you!? – Often a vary wide range and unreliable at best. No statistical reliability given in the information, so you can't determine if the trend is reliable to draw conclusions.

Sales Price vs Sf Trend

This graph represents sales prices versus living area in the subject market from 04-10-2015 to 06-30-2017 and shows a likely value for a property of 1,210 sf to be between $14,896 and $225,860.

Spark Analytics

Spark Analytics – Scarry Stuff!

▶ The appraiser needs to modify and analyze and software created commentary and do the analysis of the data – blaming a program isn't USPAP compliant

"I have been using Spark for over a year and it has saved me countless hours in data analysis and reporting!
I love that I choose the data set, but Spark creates the commentary based on the data and trends. This saves me so much time for every report! Very easy to use and an intuitive design!"

Appraiser's Responsibilities

- Advisory Opinion 37 – addresses the appraiser's responsibilities when using statistics and analyses from these programs
- The output generated is merely a calculation; it's not a substitute for appraiser judgement
- The appraiser is responsible for the entire analysis including:
    - Controlling the input
    - Controlling the calculations
    - And controlling the resulting output

What a Good Market Analysis Tells the Appraiser
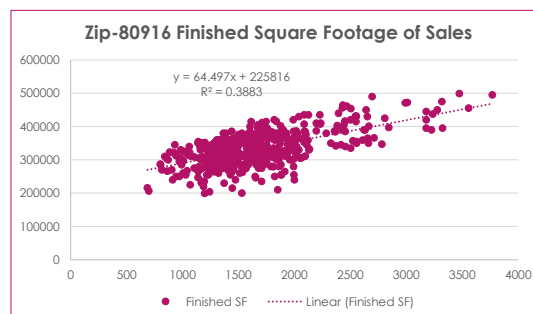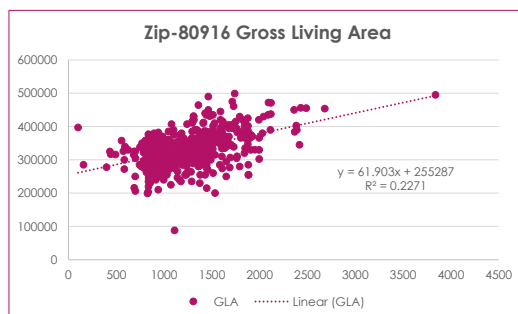
THE BUYER TYPE FOR THE PROPERTY

Analyzing Buyer Types

- Let's look into the 80916 zip code data
- Who is buying in this market?
  - Affordable Price Range with small houses

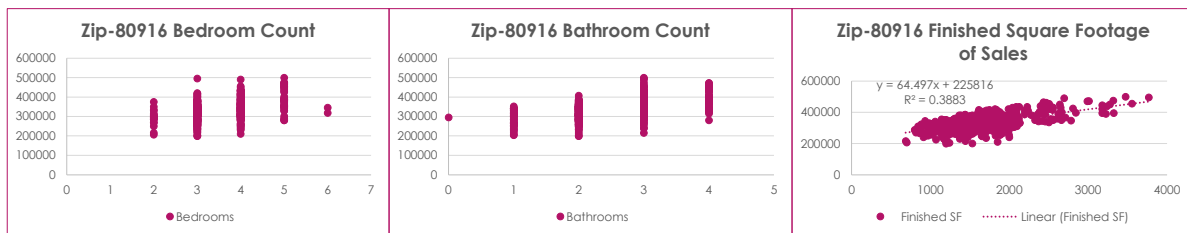| Row Labels	Average of Sold Price	Average of Finished Sq Ft	Average of Sqft Total
3 Story	$355,875	1714	1922
2 Story	$349,727	1750	1851
4-Levels	$337,438	1690	1827
Ranch	$329,764	1716	1776
Bi-level	$319,361	1615	1636
1.5 Story	$319,667	1512	1564
Tri-Level	$315,744	1424	1453
Grand Total	$331,503	1639	1702

Analyzing Buyer Types

- Who is buying in this market?
  - What is the major concern for the buyers?
  - GLA vs Finished Square Footage? Buyers are concerned with all finished area in the home

Zip-80916 Gross Living Area — $y = 61.903x + 255287$, $R^2 = 0.2271$

Zip-80916 Finished Square Footage of Sales — $y = 64.497x + 225816$, $R^2 = 0.3883$

Analyzing Buyer Types

▶ Who is buying in this market?

  ▶ Most sales are under 2,000 finished square footage with 3-5 bedrooms and 2-4 baths

  ▶ Small to mid-size families with 1-2 children or individual buyers with no children

Zip-80916 Bedroom Count — Zip-80916 Bathroom Count — Zip-80916 Finished Square Footage of Sales

$$y = 64.497x + 225816$$
$$R^2 = 0.3883$$

Analyzing Buyer Types

▶ Who is buying in this market?

  ▶ Most buyers need financing to purchase a home - #1 VA, #2 CNV, #3 FHA

  ▶ The high number of cash sales indicate investors are purchasing homes also

Row Labels	Average of Sold Price	Count of Year Built
VA	$336,345	222
Conventional	$330,967	139
Cash	$327,332	74
FHA	$326,120	91
Other	$230,500	2
Grand Total	$331,503	528

| Row Labels	Average of s/l
Cash	105.21%
Conventional	105.30%
FHA	104.38%
Other	89.09%
VA	103.95%
Grand Total	104.50%

Analyzing Buyer Types

▶ The entry level buyer is concerned with affordability and needs to finance the purchase of a home

▶ The income of the buyer is less flexible and dependent on the job market

▶ Likely buyers are in the armed forces or employed by service industries related to the airport and Air Force Base – high VA financing

▶ Quality of schools may impact the buying decision

▶ This buyer may not have significant spendable income so wants to be close to work, school and in an area that has affordable housing
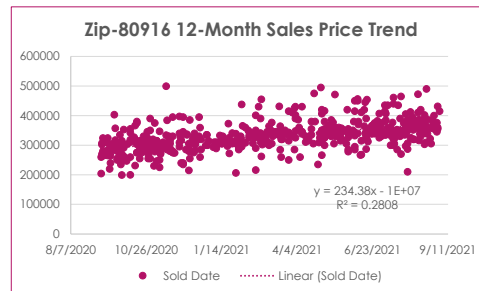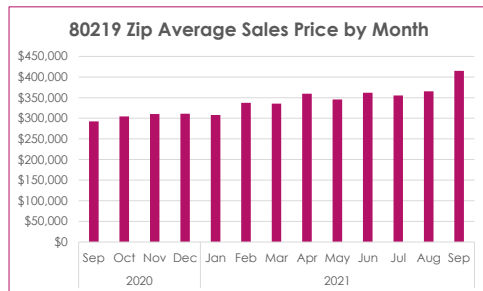
Analyzing Buyer Motivations

▶ An historical look at the market helps explain buyer motivations

  ▶ Seasonal market where prices have increased steadily over the last four years, on average

 ▶ Number of Sales is actually down from 2018 and 2019 – flatter sales trend – supply lower?
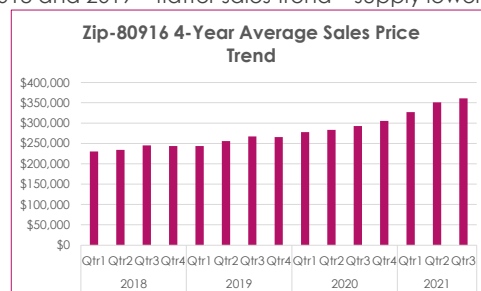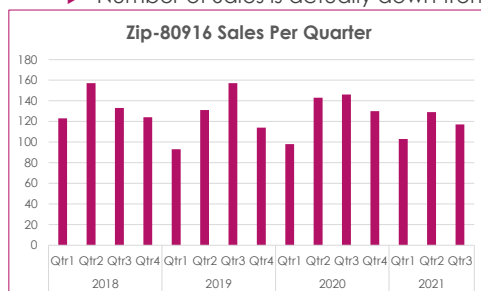
Analyzing Buyer Motivations

▶ The 12-Month Average Price Analysis shows relatively stable prices through January 2021

▶ Prices, on average, have not increased significantly between April and August

▶ September is not a complete month, so not considered. The 12-Month chart shows a steady increase, but this could be due to other factors

80219 Zip Average Sales Price by Month

Zip-80916 12-Month Sales Price Trend

$y = 234.38x - 1E+07$
$R^2 = 0.2808$

Analyzing Buyer Motivations

▶ The age of homes indicates there are 2-3 distinct market areas – Analyze the age range similar to the subject and eliminate outliers and sales of significantly different age

▶ Sales built between 2018 through 2021 may not all be listed on the MLS – new homes

▶ Analyzing the size of a sale by the date indicates there is not a change of buying patterns based on size – the increase noted in the 12-Month chart is not due to the size of the home, but the size will impact the average price in that month
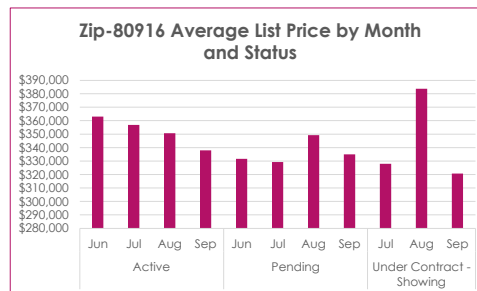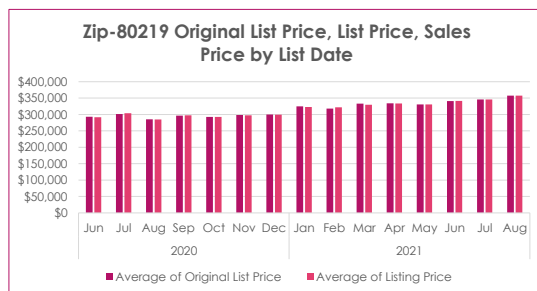
Zip-80916 Age of Homes

Zip-80916 Size of Home by Sale Date

$y = -0.0181x + 2440.2$
$R^2 = 2E-05$

17
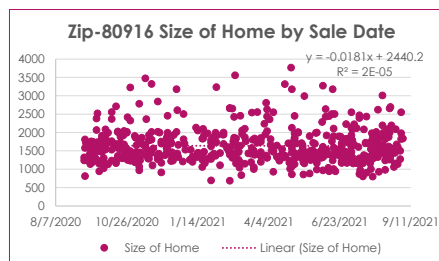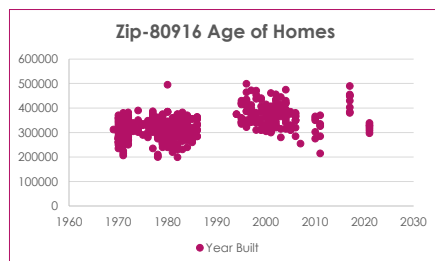
Analyzing Buyer Motivations

- Most homes sell between $282,000 and $381,000 with a median and average that are close. Closings and sales take about one month.
- Few buyers need concessions at this time, only 129 out of 528 have concession at a median $3,250, with the median sales to list and net ratio over 100%.

Concession Amount		Sold Price		Sales To List		Net s/I Ratio		Days to Close
Mean	3492.016	Mean	331502.7	Mean	1.045034	Mean	1.042198	Mean	37.6572
Standard Error	194.4282	Standard Error	2151.785	Standard Error	0.002092	Standard Error	0.002134	Error	0.668195
Median	3250	Median	330000	Median	1.041238	Median	1.037781	Median	34
Mode	5000	Mode	350000	Mode	1	Mode	1	Mode	34
Standard Deviation	2208.279	Standard Deviation	49444.24	Standard Deviation	0.04808	Standard Deviation	0.04904	Deviation	15.35395
Sample Variance	4876498	Sample Variance	2.44E+09	Sample Variance	0.002312	Sample Variance	0.002405	Variance	235.7437
Kurtosis	2.582791	Kurtosis	0.713244	Kurtosis	1.011757	Kurtosis	0.822261	Kurtosis	10.80467
Skewness	0.949393	Skewness	0.369042	Skewness	0.263539	Skewness	0.271934	Skewness	2.461373
Range	13560	Range	300000	Range	0.354167	Range	0.35055	Range	139
Minimum	200	Minimum	199000	Minimum	0.829167	Minimum	0.829167	Minimum	0
Maximum	13760	Maximum	499000	Maximum	1.183333	Maximum	1.179717	Maximum	139
Sum	450470	Sum	1.75E+08	Sum	551.7782	Sum	550.2806	Sum	19883
Count	129	Count	528	Count	528	Count	528	Count	528

Analyzing Seller Motivations

- The average list price increased steadily in the last year
- The average list price of current actives has decreased based on list date
- Analyzing listings that have been absorbed indicates these are lower priced – shows the investor market as they pick up properties to remodel heading into the fall and winter

Zip-80219 Original List Price, List Price, Sales Price by List Date

Zip-80916 Average List Price by Month and Status

Analyzing Supply = 14 Active, 19 UC & 48 Pending – Under Supply

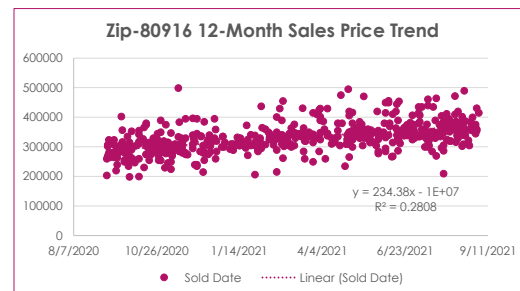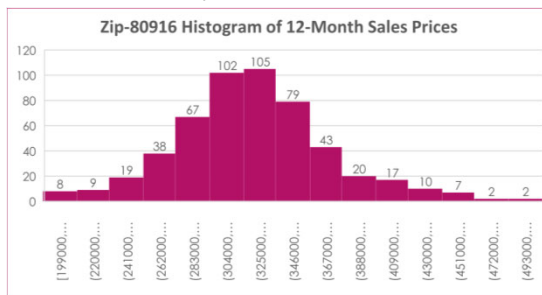| List Price		List DOM		Under Contract Price		UC DOM		Pend Price		Pend DOM	
Mean	347485.7	Mean	16.85714286	Mean	365357.47	Mean	27.8947368	Mean	344737.5	Mean	24.8125
Standard Error	12696.83	Standard Error	6.752172742	Standard Error	12373.846	Standard Error	3.72041526	Standard Error	7689.8608 2	Standard Error	2.629897702
Median	**347500**	Median	**9**	Median	**350000**	Median	**30**	Median	**345000**	Median	**20.5**
Mode	325000	Mode	2	Mode	350000	Mode	30	Mode	350000	Mode	10
Standard Deviation	47507.18	Standard Deviation	25.26431702	Standard Deviation	53936.345	Standard Deviation	16.2169141	Standard Deviation	53276.918 6	Standard Deviation	18.22046576
Sample Variance	2.26E+09	Sample Variance	638.2857143	Sample Variance	2.909E+09	Sample Variance	262.988304	Sample Variance	283843005 3	Sample Variance	331.9853723
Kurtosis	1.490127	Kurtosis	5.467045645	Kurtosis	0.9198831	Kurtosis	0.01973734	Kurtosis	1.0166984 1	Kurtosis	1.084854004
Skewness	0.907238	Skewness	2.387850228	Skewness	1.0416128	Skewness	0.36983744	Skewness	-0.1684324	Skewness	1.21831362
Range	185000	Range	88	Range	202100	Range	59	Range	269900	Range	77
Minimum	275000	Minimum	2	Minimum	294900	Minimum	1	Minimum	200000	Minimum	1
Maximum	460000	Maximum	90	Maximum	497000	Maximum	60	Maximum	469900	Maximum	78
Sum	4864800	Sum	236	Sum	6941792	Sum	530	Sum	16547400	Sum	1191
Count	**14**	Count	14	Count	**19**	Count	19	Count	**48**	Count	48

Supply Conclusions

- With 528 sales in the last 12-Months, this market can absorb 44 sales per month, on average (Very Active Market)
- Only 14 active listings indicates few new listings are coming on the market, or are being absorbed quickly
- 19 Under Contract and 48 pending indicates it is a busy time of year and demand is high
  - These sales should be closed within the next 10-20 days – average current DOM of pending and under contract is 20-30 and average days to close is 34-38 days.
- Number of active (14) / Average sales per month (44) = .27-months supply (10-day supply or less)
- Number of all non-closed (77) / Average sales per month (44) = 1.75-months supply
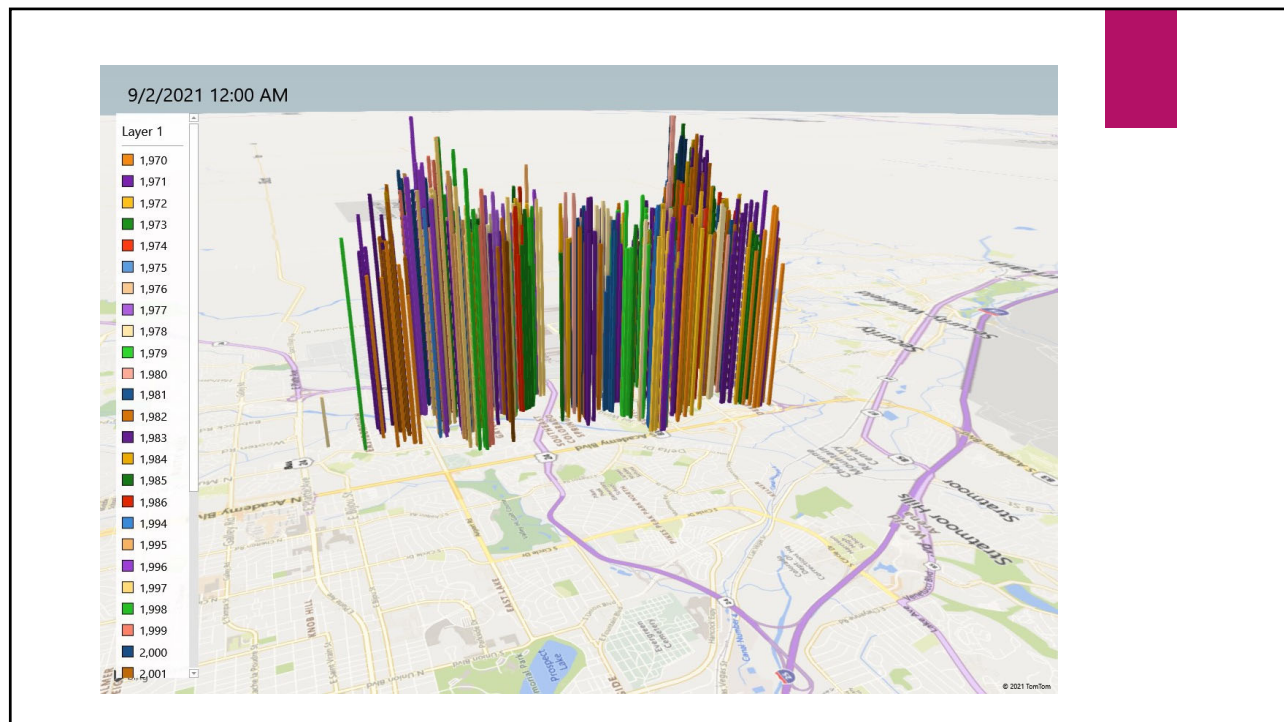- Reasonable exposure time is 34-38 days or 1-2-Months

Market Conclusions

▶ Very active market with low supply and high demand
  ▶ Supports an increasing market
▶ Marketing time – 0-30 days
▶ Price Range – $200,000 to $500,000 with a median of $330,000
  ▶ 68% of the sales sell between $282,000 and $381,000 (One Standard Deviation)
▶ Find market evidence to support a market increase
  ▶ Consider adjusting all sales to the effective date of the appraisal

How Reliable is the Data?

▶ The data has a small standard deviation with little skew – the histogram below shows the distribution
▶ Any trends in prices should be reliable – the trend in prices says $234 per day with 28% reliability – this is actually very high based on looking at trends over several markets and the last 15+ years.


Zip-80916 Histogram of 12-Month Sales Prices

Zip-80916 12-Month Sales Price Trend

$y = 234.38x - 1E+07$
$R^2 = 0.2808$

● Sold Date ⋯⋯ Linear (Sold Date)

Extracting the increase in the market

- You should analyze individual sales in the data set
  - Any resales of the same house before and after remodel will skew the overall trend – can also support a trend
- Paired sales over time is a great way to determine the increase in the market
  - I use sales from the last four years and sort based on address number and street name
- Analyze each pair to determine if the change in price is due to the market conditions or some other factor.
 - Other factors include remodeling, adding on to a home, or finishing a basement

Extracting the increase in the market

Zip-80916 Resales of the Same Home in the Last 12-Months
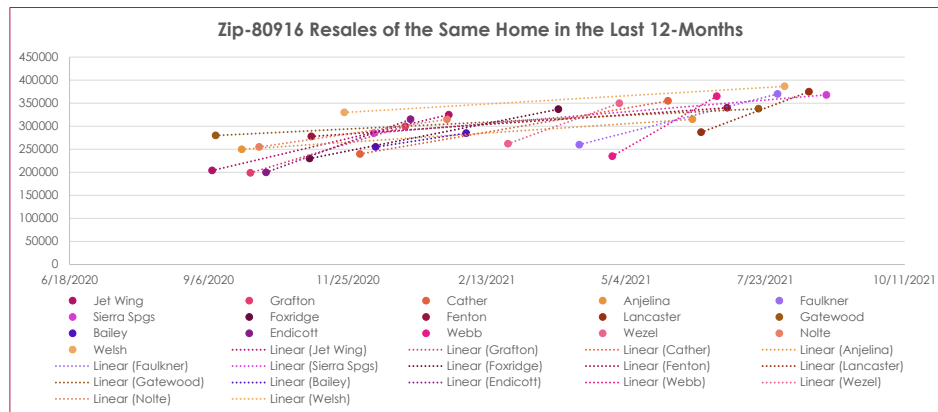
Extract Increase

- There are a few sales that may not be remodeled

- Research these sale since they are the best indicators and may provide a good market increase

Zip-80916 Resales of the Same Home in the Last 12-Months

22
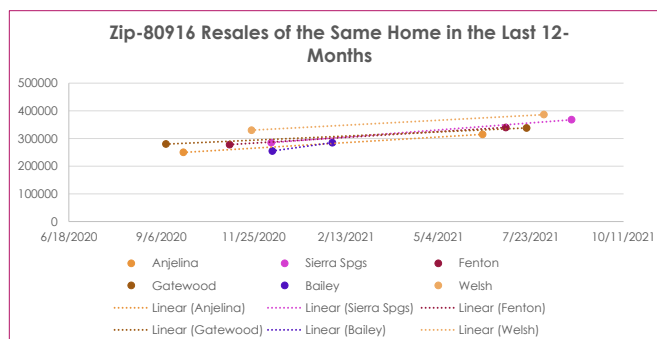
Other Ways to Extract Increase

- I would trim the data by location, size and age to get more specific trend analyses
- You can look at sales of the same size home over time which would eliminate the outliers in the data
- I would also look for pairs of similar size homes
- USPAP requires due diligence and due care which applies to analyzing the market trends

---

Special Thanks to: Bryant and Ryan

Questions?

This Photo by Unknown Author is licensed under CC BY-NC-ND