

How do appraisers analyze Changing Markets?

The expectation of this document is provide a quick summary on appraiser's responsibilities in analyzing changing markets. I cannot provide ALL information, requirements in one page. There are multiple resources for a practicing appraiser. This is a quick guide to users and readers of appraisals for a better understanding of normal appraisal practice.

Unfortunately, there's no single, common definition of a changing market (increasing or declining).

Uniform Standards of Professional Appraisal Practice

- It is a violation to mislead the reader of the report (opinion should be consistent with defined value – generally some type of market value).
- Verification is required (type of buyer, data, motivations of market participants, etc.)

Identify Market Cycles and specifically the subject property within that cycle

- 1. Growth 2. Stability 3. Decline 4. Revitalization – neighborhood life cycle
- 1. Recovery 2. Expansion 3. Hyper supply 4. Recession – The Real Estate Market Cycle

Recognizing characteristics and identifying changing markets

- Supply & demand are generally out of balance
- Marketing times – extended or short
- Who's the main buyer (owner occupied or investor)
- Building Permits – up or down
- Rents – up or down
- Vacancy – up or down
- Trends – tracking data over time, which shows consistent changes
- REOs or Stressed sellers – active or not
- List to sales price ratios

Market Area Value Influences

- Social, Economic, Governmental (legal factors), Environmental (physical & geographic factors)

Market Analysis & Market Study

- A market analysis is focused on supply & demand in a specific area for a specific property type.
- A market study is focused on competing properties. Often the neighborhood maybe less important than the market area.
- Examines general market conditions of supply, demand and pricing for a specific property type.

Generally Accepted Adjustment Techniques

- Extraction from comparable sales (paired sales analysis).
- Depreciated cost (Cost – all depreciation).
- Income capitalization – If rental differences reflect the market adjustments.
- Buyer / Market Participant surveys – Often critical, when supported, this technique may give specific answers to a characteristic (view, improvement, location or specific arrangements of a sale)
- Statistically supported models, such as linear and multiple regression analysis

Sources: The Appraisal Institute's Appraising Residential Properties 4th Edition & the Dictionary of Real Estate Appraisal 6th Edition, The Appraisal Practices Board – Valuation Advisory 3 – Residential Appraising in a Declining Market

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