

## Completing a Sales Comparison Analysis in a Changing Market

The most important aspect of completing a market data analysis is to be aware of, and report accurately, the actual state of the subject's market. If it is declining, it must be reported as such, just as increasing market values must also be reported. It is only when appraisers accurately analyze and report market trends that we provide our clients with the most reliable opinions of market value. It is essential, also, to analyze each subject's neighborhood trends specifically, and refrain from generalizing the entire city or county just as a matter of routine.

One of the best ways to provide the most accurate opinion of "current" market value in a flux market is to utilize closed sales that are very recent. Even though Fannie Mae guidelines accept closed sales within a six month period, using only three sales from within the subject's subdivision that are five or six months old may not accurately reflect the subject's current market value in an increasing or decreasing market. It is important to include additional or other comparable sales of similar homes nearby, but perhaps outside of the subject's subdivision that were sold recently.

What about using short sales or bank owned properties as comparable sales or listings? That depends on each particular subject property's subdivision or market area, and what the typical types of sales are in that particular subdivision and/or area. Sales and listing data must be analyzed sufficiently to determine which properties are not only the most similar to the subject, but also those that represent "normal" terms of sale by typically motivated parties for the specific market area.

It can be argued that short sales (not bank owned properties) do not have typically motivated parties involved in the transactions, and are not, therefore, accurate indicators of true market value. These properties usually sell for lower prices as a result. It is probably best to avoid using short sales as comparable properties. Keep in mind, however, that we must always *analyze* all market data pertinent to each subject property.

REO's or bank owned properties that have sold also must be considered. If they appear to be typical sales for a subject's area, than they should be used as comparable properties. Use bank owned properties as comparable sales only when it can be determined that they are representative of the neighborhood being analyzed.

To determine if “time” or “market change” adjustments are appropriate, a study of properties’ sales histories in the community or market area will be essential. Including comparable properties that are in escrow or currently listed may also assist the appraiser in determining if adjustments should be made to the sales either positively or negatively to reflect the trends. It is essential to analyze all pertinent market data, especially the current competition for the subject property.

In addition, conclusions of price trends can be supported with competitive sales data, such as sale/resale comparables when abundant. If desired, a trend line can be applied to a large enough sample of comparable sales using Excel or other spreadsheet software. Secondary data sources are also a good source for price trends; however, be careful that the data samples are not too general, and that they include data that is truly competitive and accurate.

If a price trend change is concluded, adjustments to the comparables can be made to bring their sale prices to current price levels, as of the effective date of value. Further analysis of trends in list prices, days on market, and list to sale price ratios, can be summarized and reported.

As you conduct your analysis and report your findings, always keep in mind that just analyzing activity in only the subject’s subdivision may not be enough to be compliant with USPAP. There may be additional pertinent market data to be considered from outside of the subject’s actual subdivision, but which is still located in the subject’s market area.

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*The views expressed in this article are those of the authors and not necessarily those of the Nevada Real Estate Division.*