

Trend analysis

How a deeper analysis of market trends can help appraisers better support conclusions

by Michael V. Sanders, MAI, SRA

Trend analysis is a quantitative technique that appraisers can use to identify and measure trends in the sale prices of comparable properties — data that usually plays a supporting role in appraisal reports, where it typically describes market characteristics, predicts future performance or supports adjustments for market conditions. Trend analysis is less frequently applied to the historical sales of a subject property, where it can supplement conventional sales comparison, particularly in cases with limited data or a range of indicated

values. In cases involving detrimental conditions, data on market trends can be invaluable when measuring and comparing market performance over time.

The three case studies here illustrate how I used trend analysis to help improve the reliability of my appraisal conclusions.

The value of green

Located in an upscale beach community, this approximately 4,000-square-foot home was built in 2007 and certified as LEED Platinum



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by the U.S. Green Building Council — one of the first homes to attain this certification. The property was purchased new for \$2.55 million in mid-2008.

The assignment involved valuation of the property in 2015. While there were recent sales of newer contemporary homes in the neighborhood — some with modest green features — none was LEED certified. Anecdotal information from local brokers provided no clear consensus on the contributory value of the property's extensive green features or its LEED Platinum certification. Further, comparable sales supported a range of value indications, from \$3.125 million to \$3.9 million; the cost approach indicated a range of \$3.3 million to \$3.6 million.

A study of market trend data from different sources indicated the local market appreciated 30 percent to 35 percent between mid-2008 and mid-2015 and, when applied to the property's original sales price, indicated a current adjusted price ranging from \$3.315 million to \$3.4425 million. These prices were well within the range indicated by comparable sales and the somewhat tighter range indicated by the cost approach. Trend analysis provided another metric to better support the final conclusion.

Duplex flip

Located in a densely populated, low-income urban community, this 1,600-square-foot duplex was built in the early 1900s and was in average condition when it sold for \$450,000 in mid-2007. In 2013, an investor acquired the property out of foreclosure, spent \$75,000 on renovations, and flipped it in mid-2015 for \$460,000.

The assignment involved valuing the property at the time of foreclosure in mid-2013. While comparable sales were plentiful, property characteristics varied significantly, and many transactions were foreclosures or short sales. Relevant value indicators (price per unit, price per square foot and gross rent multiplier) showed a range of \$260,000 to \$315,000. Statistics from the multiple listing service were used to document average annual prices, noting a 30 percent decline from 2007 to 2013 and then a 20 percent increase from 2013 to 2015.

A 30 percent drop relative to the property's acquisition price of \$450,000 in 2007 would suggest a value of \$315,000 in mid-2013. An analysis of the \$460,000 transaction showed that deducting renovation costs (\$75,000) and adjusting for the 20 percent appreciation since 2013 indicated a value range of \$308,000 to \$321,000 (depending on whether renovation costs were deducted before or after adjustment for changed market conditions). In this case, trend analysis supported a 2013 market value at the upper end of the price range developed through sales comparison.

Alleged construction defects

Multiple tracts of homes ranging from 1,800 to 3,700 square feet were built in a conforming residential community in the early 2000s, and were similar in significant respects to most other projects in the community. Because there were several different tracts, builder sales occurred intermittently between 2001 and 2006; the first significant resale activity was in 2003, with resales comprising all transactions after 2006. In 2010, a complaint was filed alleging defective construction, and while actual damage to the homes was minimal, the builder was accused of violating residential building standards, which are codified in California law.

The assignment involved an evaluation of the market impact of a detrimental condition (the alleged construction defects). A comparison of price trends is one of several techniques to measure possible diminution in value.

Trend analysis can be particularly useful in cases involving multiple properties because it allows for a critical examination of performance over time and a comparison with market benchmarks. In this case, the data suggested that resale transactions of the subject tracts performed in a manner generally consistent with the overall market (notwithstanding allegations of defective construction), where prices during the recession dropped ± 60 percent county-wide and ± 40 percent citywide. Importantly, additional analyses of the data comparing average annual sale prices and price changes for the subject tracts relative to the county and city revealed no significant market variance. ◀



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