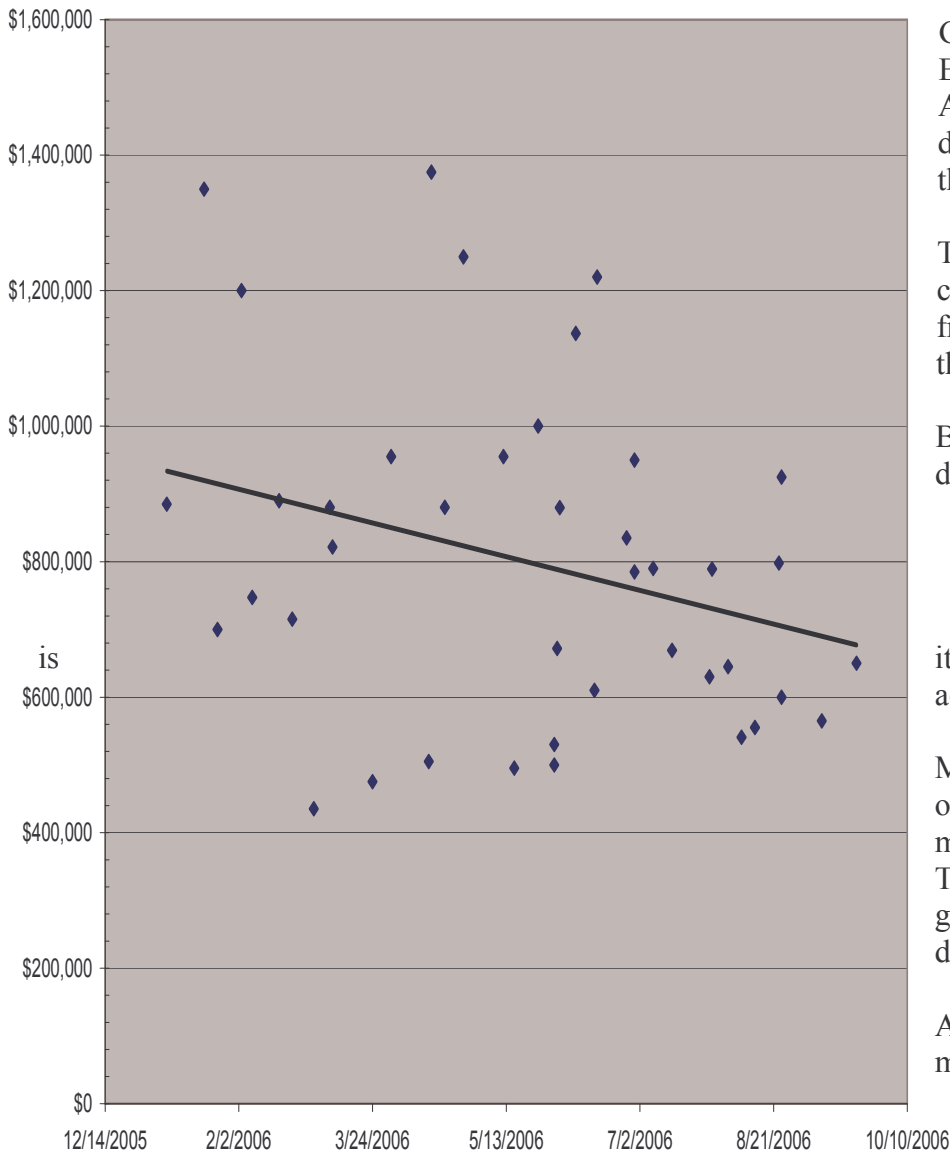


Using Graphing Techniques to Support Time Adjustments



Graphing Market Data is an easy step in Excel, once you have installed the Analysis Pack contained in the MS Office disk. It does not automatically install with the standard installation.

This graph of the data is from the community of Rancho California, CA, from a current assignment of a property in the \$1,200,000+- range.

Based on observing what this market has done in the last 10 months, it is apparent that the trend is downward. The question is what is the rate of change? Is it 9% per year, or it 12% per year? It is constant or accelerating?

My experience in dealing with the issue of Time adjustments is that once they start moving, it starts slow and accelerates. This seems to be true when they start going up and again once they start going down.

Also, the rate increases over time if the market conditions that support them remain or increase. For any given year,

we might measure a **12%** or a **-12%** rate for the entire year. This does not mean that the rate was **1%** per month does it?

Normal real estate cycles in normal markets, urban and suburban, reflect highest sales volumes between May and September, and the lowest between December and March. This is just the way it is.

Second home markets in the southern states, may have their high season in the Winter months, from Thanksgiving through Easter.

In the case of the market area from which this graph was taken, we will use a **-1%** per month adjustment to all the closed sales used for direct comparison.

A question we need to ask the agents when we verify older sales, even current pending sales, actually all market data” Could you resell the same property today for the same price without concessions or cash-back?

Remember that the USPAP definition of **Market Value** is in terms of Cash to the Seller, Net of Concessions. This means we need to test each comparable we are relying upon.

Also the USPAP definition of **Market Value** is has been based on the **Most Probable Price** and not the **Highest Price**. Actually the definition was changed in 1982 in the Society of Real Estate Appraisers, Appraisal Terminology book. The definition was changed at the behest of the Regulators, who were complaining that appraisers were over-valuing properties, in part, due to the definition.

Robert J. Engelstad, senior vice president for mortgage and lending standards for the Federal National Mortgage Association, was quoted in the Secondary Mortgage Market newspaper in 1984 as saying {OK I am

going to paraphrase here, as my memory may not be perfect, but the essence of what he said was as follows}

“Appraisers seem to have a real problem grasping what Most Probable Price means, they did not have the same problem with Highest Price, which they did a much better job measuring”

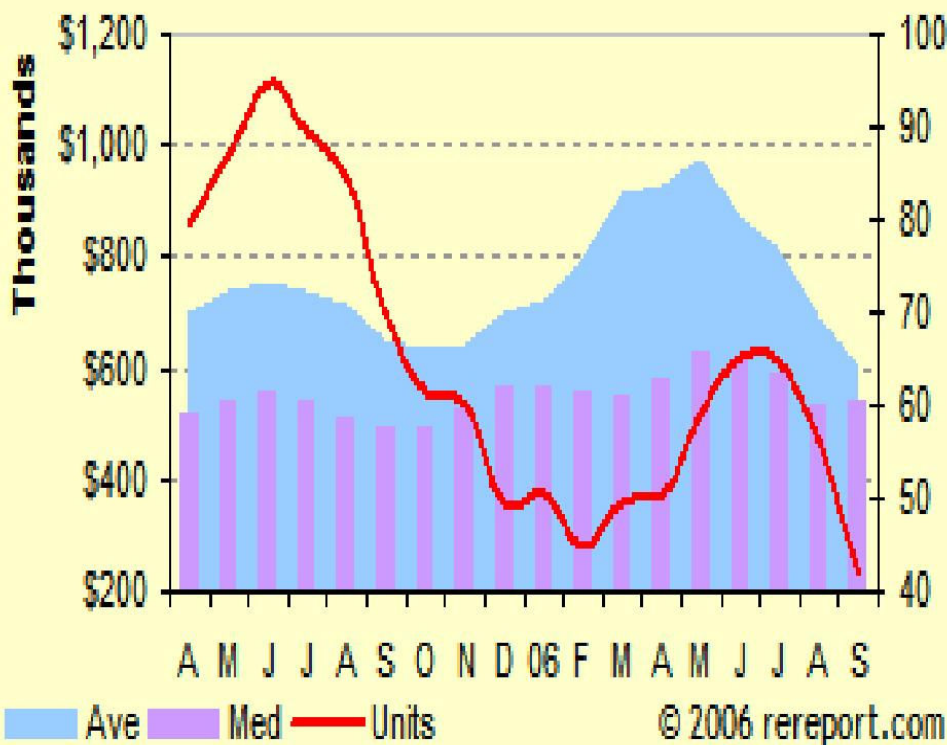
We are on the cusp of a new market, looking over the edge, whether we are aware or not. Different than prior market challenges, we are facing a real big recession and we are licensed this time. The repercussions of our actions will come back to haunt us in much larger ways than in the past.

This graph of the Palm Desert market is in the public eye, having been produced by local realtors and disseminated through various sources. If you were appraising in this town, what would the direction of your Time Adjustment be?

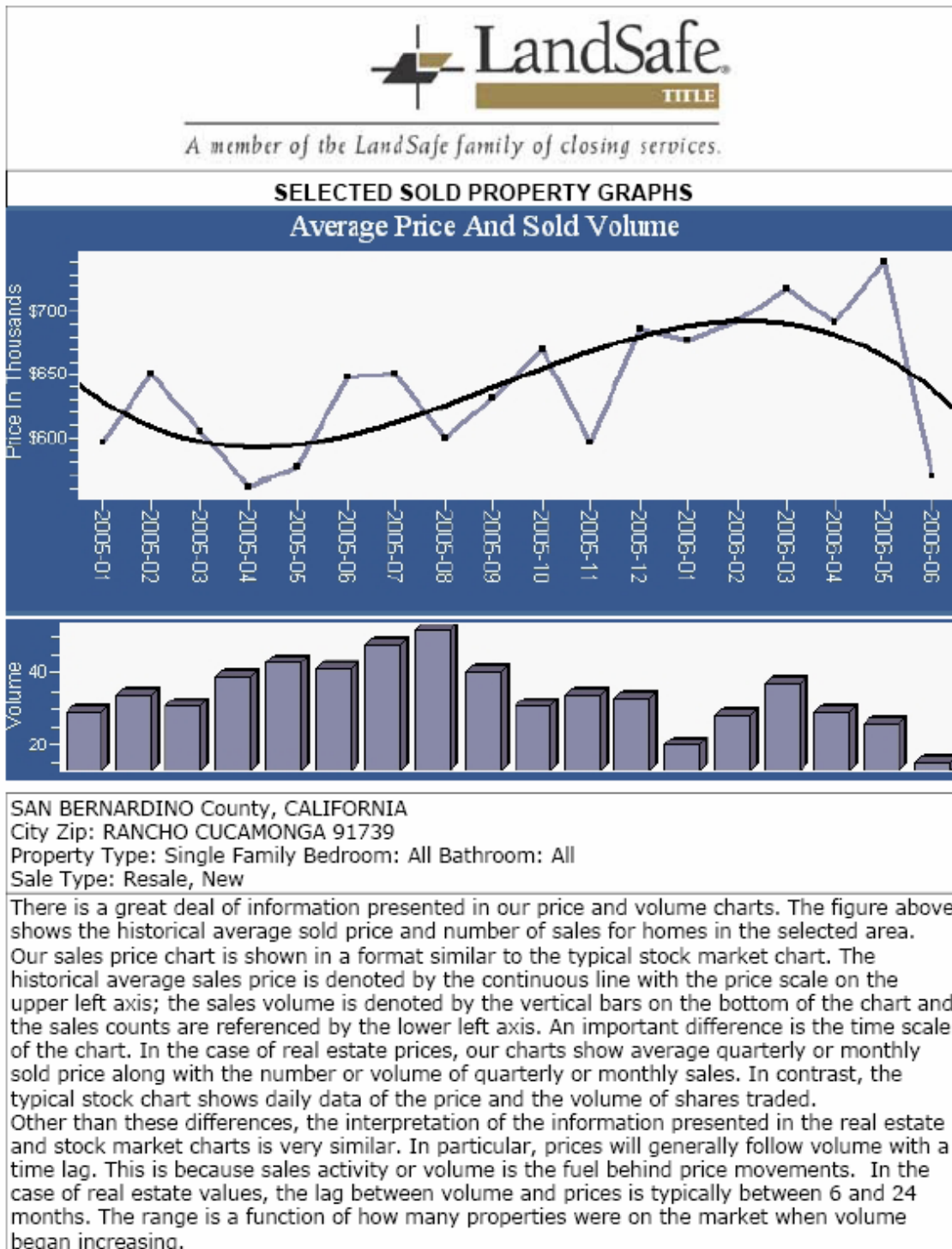
It is pretty obvious that it would be downward; the only question would be the magnitude. At the same time, the Summer months are the lowest selling months in the Low Desert market area in which this City is located. Different from the Rancho California suburban market, sales are now increasing in Palm Desert.

Palm Desert Homes: Prices vs. Sales

(3-month moving average)



My propensity would be to make a softer downward adjustment in this Second Home market than in the typical Suburban or Urban markets.



Here is a graph that shows what is happening in one Zip Code. It is available to appraisers and their clients alike. Every regulated financial institution must analyze every market they are making loans in or holding loans in, every year. Think of Management having this information. Shouldn't we be reporting what is happening in the markets we work, as it happens?

Check your resources and see what you have available to report on Market Conditions and Market Trends. This is different than looking for 3-6 "Comparables".

It involves being aware of and correctly employing good appraisal procedures, one of the things we certify compliance with.

Ask your clients what type of

information they have available to them, and whether they would like to receive this type of information from you on a regular basis. Include Charts and Graphs in your reports. The clients like them, because they are easy to understand. Juries like them too. I have presented valuation testimony in court, without a report, just a Graph of the Data. Of course, I was then cross examined hours upon end by the opposing attorney. In situations like

that, I try and act like a professional, often taking my glasses off and asking to have questions repeated, then answering slowly. Not a bad gig when you are being paid by the hour.