



# THE REAL ESTATE REPORT

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## Real Estate sales statistics, what to believe and why

### How the markets failed

This fall has been exciting for market watchers and worriers. As the Chinese subtly warn each other “may you live in interesting times.” We are certainly living in interesting times this fall with the related meltdown of real estate, credit and financial markets, here and around the world. One of these markets got out of control and has dragged them all down. Record low interest rates, low inflation rates and a political agenda designed to help as many people become home owners as possible led to a huge number of sub-prime mortgages being issued in recent years. This fueled such an increased demand for property that it drove prices way up. It also encouraged widespread speculative building to meet anticipated demand. Similarly the 1920s boom was also based on borrowed and leveraged money for investment - in that case the stock market. But what goes up too far comes down - the bubble cycle. We get cycle regularly in many markets, never learning the lessons of excess. Remember the 2000 dot com bubble?

When adjustable mortgages started to ratchet up their rates, people began to fall behind in payments. Initial lenders mostly sold off their mortgages to Fannie Mae or Freddie Mac or saw them packaged as investment vehicles to sell all over the world. Thus they ducked much of the liability of subsequent defaults. Investors and many major investment institutions bought these derivative mortgage vehicles before they realized they could be stuck with increasingly devalued portfolios, how worthless they still don't know. As a result they have tightened up on lending, not just to home buyers but to anyone, including businesses, causing the present grid lock in the economy, leading to layoffs, unemployment, low consumer confidence, lack of buying and, whola!, we have a recession! Of course the statistics keepers took a year to confirm this. If they are so slow, what can we say about the reliability of real estate statistics?

Lets first look at what we can see in regional real estate sales, then what the problems are and then look at some problems with interpreting statistics. What the facts say is not necessarily the truth. *There are lies, damn lies and statistics* is apt. Once attributed to Mark Twain, another apparently deserves the credit for this fine aphorism.

### What happened locally

NYSAR (New York State Association of Realtors) publishes monthly statistics on their website ([www.nysar.com](http://www.nysar.com)) on real estate sales by county. For the most recently reported sales, through October 2008, the number of single family house sales compared to 10/07 dropped 9.9% while in local counties they dropped 30% in Columbia County, down only 4.8% in Dutchess, off 6.4% in Albany and up 2.8% in Rensselaer (Greene County, not unusually, was too late to report their sales). Something wrong with Columbia County? Through the end of September it was up 14.3%, well above the other counties. What is with this variability? Read on.

What about the median sale prices? The state was off just 1.8% but Columbia County was down 21.7%, Dutchess down 20.3%, Albany up .9%, Rensselaer down .4%. Something wrong

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with Columbia and Dutchess Counties? The month before Columbia was up .9%, Dutchess was down 13.8%. More odd variability. Looking further afield we find that sales numbers and median prices in other counties of the state show even wider differences among them and in swings over time. Delaware County sales were up 111% in the last year, Sullivan County off 73%. Median prices were up 95% in Yates County but off 33% in Lewis County. So what is going on? Can we believe any statistics? Is reality wako or is it the way figures are reported? Here are some thoughts to consider.

### Real estate market trends and cycles

There are seasonal and yearly trends in the real estate market which make a closer look at statistics seem shaky. We have experienced at least three cycles of the real estate market locally, about ten years each, with prices doubling in five years followed by five years of slower sales but prices staying close to level though dipping some before the next cycle starts. We are now in the ninth year of the current cycle and we are following the prior cycles almost exactly. Will the new cycle begin next year? Statistics would suggest so, though an unusually deep recession may argue for a delayed real estate recovery.

There is also an annual cycle: sales, if not prices, trend up as the weather gets warmer in the spring and slow down in the fall. This is consistent regionally and statewide year after year. Buyers start looking after the holidays (not in the warm spring as many think) and are most active by June (hence closings are highest in August), then taper off thereafter. Many sellers take their houses off the market in the holidays assuming buyers are absent. Not so, there are 50-70% as many then as in the high season, judging by January and February closings.

### Problems with the numbers

Those are demonstrable facts. Now we come to statistic issues. If you look at national statistics, there are so many sales that the reliability of the statistics is high. But at a county level the number of sales can be so small, 20-40 a month in smaller counties, that one expensive house or an unusually low price sale can skew the median (the midpoint between half above, half below) price significantly. This is even more dramatic when average prices are used, hence the preference for median prices. Thus a small “n” - as in numbers - can itself cause statistics to be misleading if not inaccurate.

So would it not be better to go with the high “n” statistics, like statewide or national numbers? Yes, except for the fact that there is a great deal of variability between regions, states and, as we have seen, counties. So variable that it is almost pointless to quote state or regional numbers when most people really want to know what their local market is doing. What to do? Because of the small “n” for many counties, the trend in sales and medial prices is better done on a quarterly basis, smoothing out monthly distortions.

Another way to tackle accuracy of sales is to compare apples to apples by comparing the same property's sale history through time. Find a number of houses which have sold twice in recent years and compare the first and second price of each, taking into account time, changes in structure and condition, to project an

annual rate of change in value. Of course appraisers do something like this by comparing roughly comparable properties, adjusting for differences, to come up with market value for the subject property.

There are other statistical problems having to do with data collection and completeness. NYSAR's data is based on what multiple listing services (MLS) for each county report to them. These county or multi-county services are owned and run by local real estate brokers and agents and reflect only those sales which go through their system, not the total of all sales. Even though NYSAR and the MLS data should confirm each other, notable disparities in reported statistics can easily be pointed out for which no explanation has been forthcoming. Each county government's real property office does record all sales but not in a form which can readily (timely and conveniently) yield sales data.

With so much riding on accurate understanding of this market. Most everyone is curious about how they are doing, especially since their home may be their largest investment. Yet it is amazing how much caution needs to be applied to reported sales figures. Whatever the inadequacies of published sales data, it is far better than personal impressions, even by realtors, which tend to be reflective of personal disposition, immediate rewards (or lack), and seller and buyer opinions.