



Sargeant Appraisal Service Rutland County Newsletter

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Winter 2009

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Welcome

Our newsletter is published 4 times a year, once at the end of each season. We distribute this newsletter to real estate professionals, mortgage lenders, attorneys, financial planners and other individuals who serve the needs of home owners and home buyers in Rutland County, VT.

The purpose of our newsletter is:

1. To inform you of general changes we see that may affect property values in the Rutland County Real Estate market.
2. To keep you up to date on changes in the Appraisal industry that can affect your relationships with your Appraisal vendors.
3. To let you know about upcoming educational opportunities for lenders and other users of valuation services.

If you would like to comment on our newsletter, subscribe by email, unsubscribe or add someone to our distribution who would benefit from this information please send an e.mail to sean@sargeantappraisal.com or give us a call at (802) 775-5916.

The latest version of this newsletter is always available on our web site, www.SargeantAppraisal.com. Click on the [Newsletter](#) button in the upper left corner.

In addition, past issues of the newsletter are stored under the [Blog](#) button in the upper right corner.

Rutland County Market Dynamics

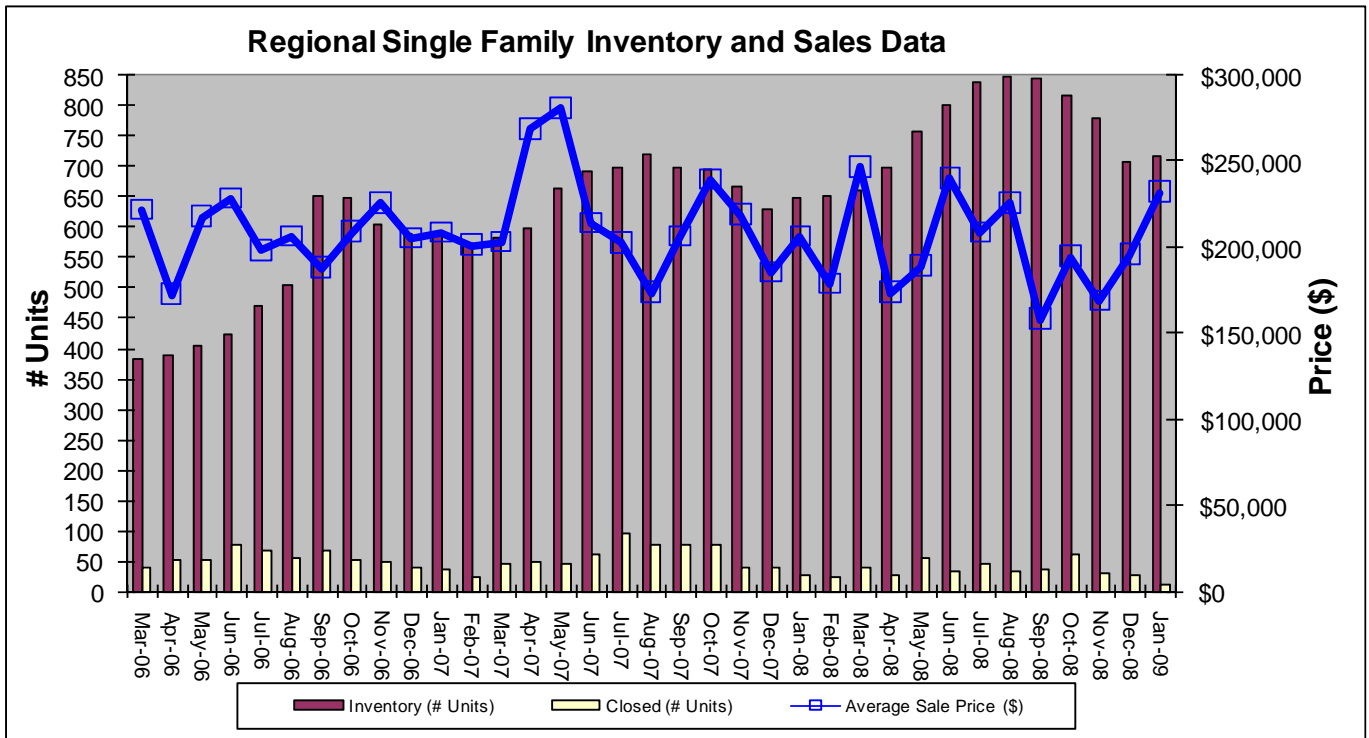
Rutland County metrics specifically exclude Killington data which is treated, in our analysis, as a distinct market.

Single-Family Data:

Typical of the winter months, the number of single-family homes actively on the market in Rutland County is off the recent high of 846 homes in August 2008 and stood at 716 homes on February 1, 2009. This level of inventory is well above the 300 to 400 units typical between 2004 and 2006.

The sales pace for the past four months is off the sales pace for the same period in 2007/8. In the past four months, 131 single family homes have closed in Rutland County. Over this same period in 2007/8, 186 single family homes closed. As a result, the inventory level in 2007/8 was 9 months of supply. Overall, today there are 19 months of supply actively on the market for sale.

Therefore, the one trend in the market which is universal across all price ranges and property types is an increase in marketing time. On average, a single family home actively listed for sale in Rutland County has been on the market for 224 days. However, homes that sold did so, on average, in only 167 days. While there are differences in the absolute numbers by price range, these metrics have been trending up for the past 18 months.



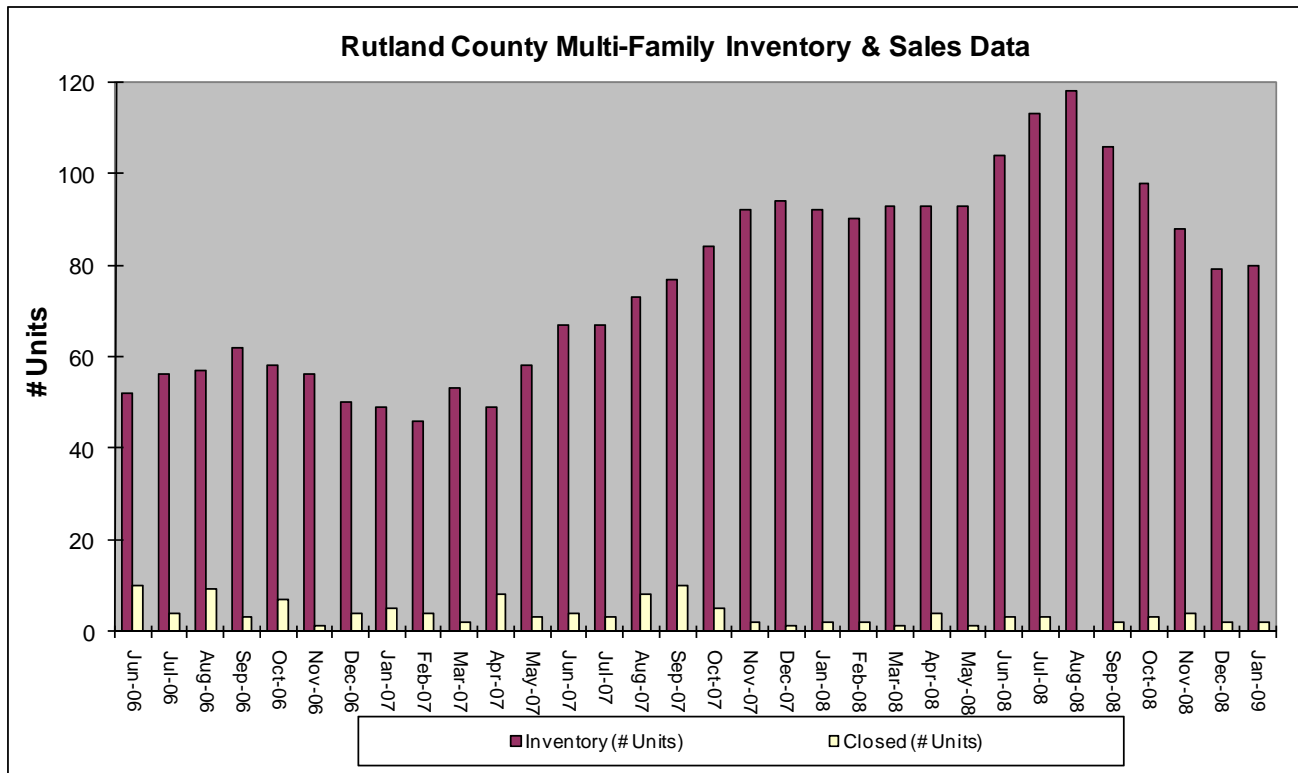
While the OFHEO Home Price Index for Vermont has, year on year, turned negative for the first time in 12 years (-1.7% year on year), our analyses indicate the local market dynamic depends on the price range of the home. While the market for homes priced under \$200,000 is holding its own, there is enough market data that indicate a slightly negative value adjustment is appropriate for homes initially priced over \$200,000.

Initial Asking Price Range (\$k)	Current Period			7 to 12 Months Ago		
	Median Closing Price (\$)	Median Reduction in Asking Price (%)	Median Days on Market (days)	Median Closing Price (\$)	Median Reduction in Asking Price (%)	Median Days on Market (days)
below 200	145,000	-6.5	59	134,000	-7.8	94
200-500	268,500	-8.5	115	270,000	-8.6	173
over 500	443,300	-16	219	578,450	-11	213

Multi-Family Data:

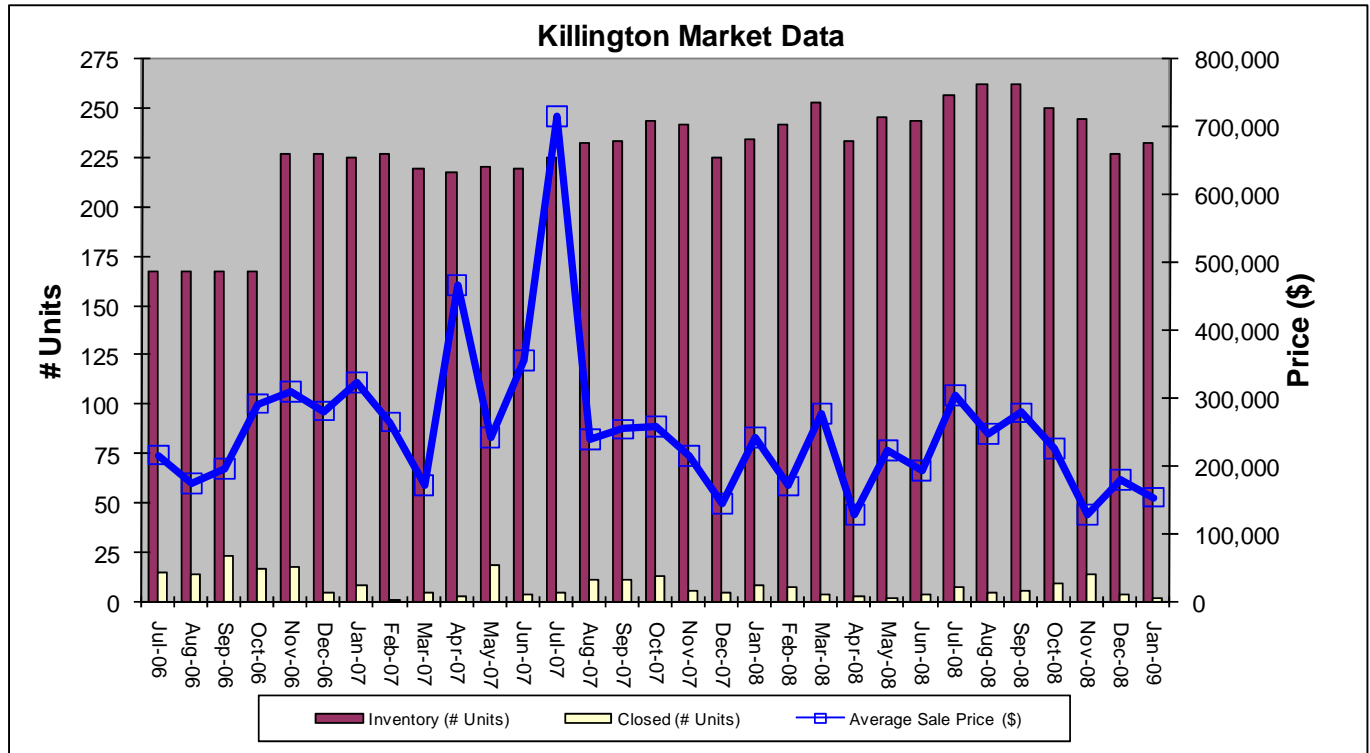
While the inventory of listings is down and, year on year, sales are up, the multi-family market in Rutland County continues to show a large mis-match between supply and demand. The supply of properties actively on the market peaked at 118 in August of 2008 and was at 80 properties on February 1, 2009. In addition, over the past 3 months, there have been 8 closings compared to only 5 closings in the same 3 month period of 2007/8. However, this still represents a 37 month inventory of multi-family properties and, on average, an active multi-family listing has been on the market 199 days.

One emerging change in the multi-family market is the development of two, distinct, markets based on the perceived quality of the investment. Well maintained properties that are fully leased and up to date on their permits, especially those with owner-occupant appeal, continue to sell at per unit prices indicative of values in 2005 to 2007. However, poorly maintained and vacant properties, most with conditional Certificates of Occupancy, are selling at per unit prices reminiscent of the late 1980's!



Killington Market Dynamics

There are currently 232 single family homes and condominiums on the market for sale in the Killington region. On average, a listing has been on the market for 446 days. The sales pace across the past three months is a total of 20 properties, similar to the 19 properties sold over the same period in 2007/8. Over the last three months the average marketing time prior to a sale was 432 days. Furthermore, the current inventory level is 35 months of supply compared to a 29 month supply over the same period in 2007/8.



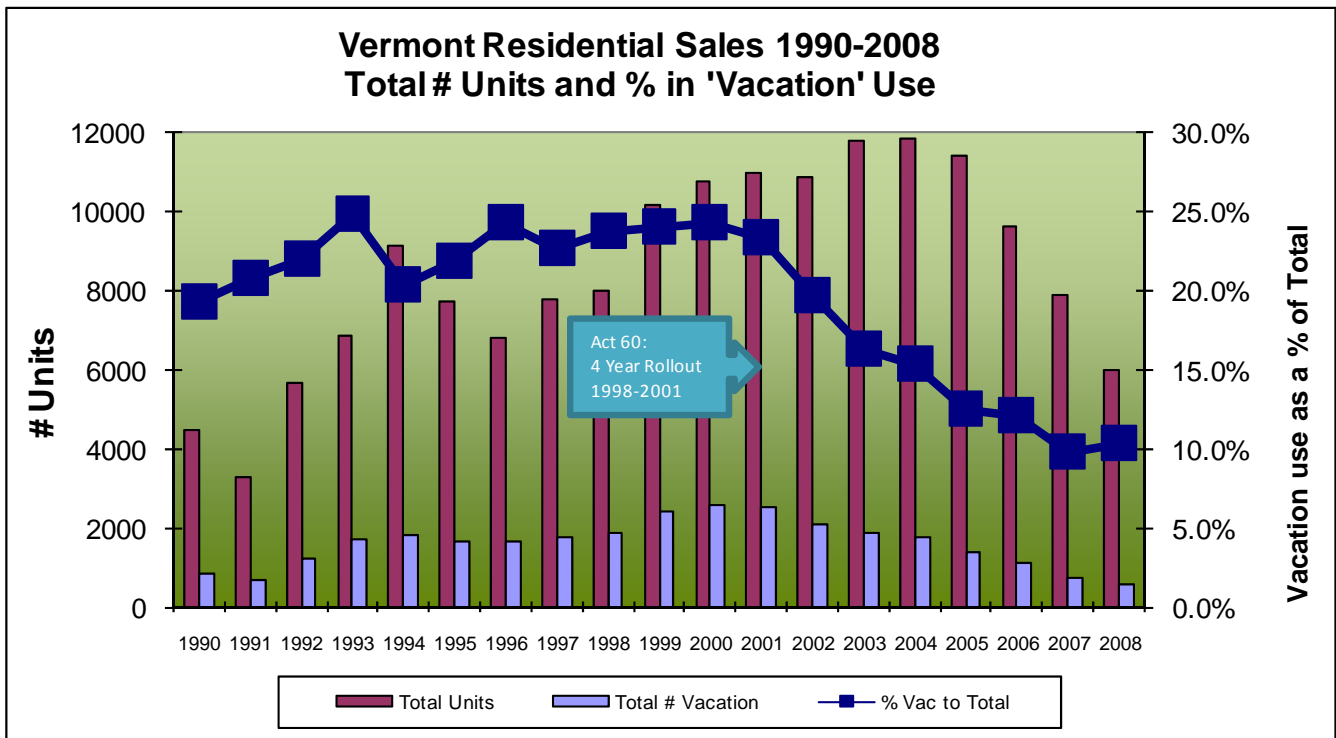
Vermont 'Vacation' Use Sales

Thanks to a few comments by Jim & Joan Watson we have continued to research the decline in the percentage of Vermont home sales identified as second-home or 'vacation' use in the Vermont Property Transfer Return database. Remember, the decline experienced since 2000 continues unabated through the economic slowdown in 2000, the world trade center attacks in 2001, the start of two wars, the real estate explosion of 2004-2006 and the current credit crunch.

Jim and Joan asked a leading question, "Could the decline have anything to do with Act 60?" While initially we answered "No, It could not be that simple." The question got us thinking. We've all been in the Lake Bomoseen camp the owners use 1 week a year and pay \$8,800/year in property tax. We've been in the Killington condo the owners use 3 weeks a year and pay \$24,000/year in taxes. We've even been in the ski on/ski off Ludlow home the owners use 10 days a year and pay \$54,000/year in taxes. We're not complaining. These owners are adults who bought property of their own free will. But, perhaps, the property tax rates under Act 60 have dampened the demand for second homes in Vermont.

We went back in time through the Vermont Department of Taxes property transfer tax data,

available to anyone on the state website, to see if there were more trends we could identify. Here are the statewide results back to 1990 that now include the real estate downturn of 1991-1995. On top we plotted an arrow to show Act 60 was implemented over a 4 year period from 1998 to 2001.



Over the 12 years prior to 2001, the first year Act 60 was fully implemented, second home sales tracked between 20% and 25% of the total number of property transfers. Starting in 2002 and continuing until a slight uptick in 2008, second homes sales, as a percentage of all property transfers, dropped, year on year, to their current level of 10%.

We can't say for sure that Act 60 is a contributing factor, however, the timing does fit with the change in the data. One thing for sure is in 2008 the state collected \$30,551,000 in property transfer tax. If the number of second home sales was back to 20% of the total we would have an additional 650 sales, resulting in an additional \$9,300,000 in local broker commissions of which +/- 7% would have been due to the state in the form of income tax. In addition, the state says this money turns over locally 5-7 times and they collect 7 to 11% in sales tax every time it turns over.

All in all, if these 650 sales occurred, Vermont would have collected an additional \$4,500,000 in property transfer tax, \$650,000 in income tax and \$4,200,000 in sales tax. There is a potential \$9,350,000 in annual state revenue if we can just figure out how to get second home sales back to the levels they were between 1990 and 2001. As always, your comments on our analysis are encouraged.

New FHA Appraiser Requirements

Do you originate FHA insured loans? The FHA has announced additional requirements that could change our industry.

James B. Lockhart, Director of the Federal Housing Finance Agency, announced that, effective on

mortgage applications taken on or after Jan. 1, 2010, Freddie Mac and Fannie Mae are required to obtain loan-level identifiers for the loan originator, loan origination company, field appraiser and supervisory appraiser.

"This represents a major industry change. Requiring identifiers allows the Enterprises to identify loan originators and appraisers at the loan-level, and to monitor performance and trends of their loans," said Lockhart. "If originators or appraisers have contributed to the incidences of mortgage fraud, these identifiers allow the Enterprises to get to the root of the problem and address the issues."

The purpose of FHFA's requirement is to prevent fraud and predatory lending, to ensure mortgages owned and guaranteed by the Enterprises are originated by individuals who have complied with applicable licensing and education requirements under the S.A.F.E. Mortgage Licensing Act, and to restore confidence and transparency in the credit markets. In addition, the Enterprises will use the data collected to identify, measure, monitor and control risks associated with originators' and appraisers' performance, negligence and fraud.

To implement the requirement, FHFA has been working with the Conference of State Bank Supervisors (CSBS) and the FFIEC Appraisal Subcommittee. Within the next 30 days, both Fannie Mae and Freddie Mac will be issuing guidance related to implementation of the requirement.

In addition, HUD announced in Mortgagee Letter 2008-39 that, "Commencing October 1, 2009, all FHA-approved lenders must use state **certified** appraisers for FHA-insured mortgages. The appraiser assignment field within the Case Number Assignment screen in FHA Connection must be input with an appraiser who is listed as either certified residential or certified general on the FHA Roster for the state in which the property is located. If, on or after October 1, 2009, an FHA-approved lender enters an appraisal assignment into FHA Connection for a property from a FHA Roster Appraiser who is licensed but not certified in accordance with this Mortgagee Letter, the appraisal will be unacceptable for FHA-insured financing and a second appraisal, performed by a state certified appraiser, must be completed at the lender's expense."

These directives represent no change for Sargeant Appraisal. Appraisers are already licensed and tracked by an individual identifying number published in every report. Furthermore, both Sean and George are currently FHA certified appraisers who meet all the October 2009 requirements. In addition, Sean just received his SRA designation from the Appraisal Institute.

Cost vs. Value, 2008 Remodeling Survey

Remodeling magazine has just released their 2008 'Cost vs. Value' survey for several popular home improvements. This survey is especially useful as the data is available specifically for New England and shows the change, year on year. This survey compares the cost of a home improvement project, such as a bathroom renovation, to any increase in value when the home is sold.

While small projects like carpet or paint may increase the value of a home beyond their cost, to no one's surprise, there is no large renovation project that returns all of its cost. In fact, the average returns are dropping year on year. While popular renovations, and their return, are shown below the complete survey is available at www.Remodeling.hw.net. Noticeable in its absence is the lack of any data on an in-ground pool.

Regarding any large project, we continue to advise clients if the renovation is for them, to increase their enjoyment of the property or to finish a basement family room so they know where their teenage child is hanging out at night, by all means go ahead. But, beware the market may not think as highly of the project as you do. Rarely, beyond simple carpet and paint, would we ever encourage a large remodeling project or addition as part of preparing the property for the market. If

there is a deficiency in the property, like 4 bedrooms with only one bath, we encourage owners to acknowledge the problem and, working with their agent, factor it into asking price. Leave the property modifications to the new owners. It will save you money in the long run.

New England — Midrange				2008-09 National Averages			
Job Cost	Resale Value	Cost Recouped	Project	Job Cost	Resale Value	Cost Recouped	Change vs. 2007
\$52,974	\$35,286	66.6%	Attic Bedroom	\$48,398	\$35,694	73.8%	↓
\$14,757	\$6,601	44.7%	Backup Power Generator	\$14,040	\$8,026	57.2%	↓
\$66,139	\$37,497	56.7%	Basement Remodel	\$61,011	\$44,467	72.9%	↓
\$41,069	\$22,569	55.0%	Bathroom Addition	\$38,078	\$24,187	63.5%	↓
\$17,044	\$12,154	71.3%	Bathroom Remodel	\$15,899	\$11,857	74.6%	↓
\$15,687	\$11,035	70.3%	Deck Addition (composite)	\$15,277	\$11,260	73.7%	↓
\$11,168	\$8,578	76.8%	Deck Addition (wood)	\$10,601	\$8,676	81.8%	↓
\$87,115	\$51,790	59.5%	Family Room Addition	\$81,315	\$53,608	65.9%	↓
\$60,757	\$36,232	59.6%	Garage Addition	\$57,272	\$38,161	66.6%	↓
\$29,052	\$12,949	44.6%	Home Office Remodel	\$28,094	\$15,329	54.6%	↓
\$59,016	\$40,481	68.6%	Major Kitchen Remodel	\$56,611	\$43,030	76.0%	↓
\$109,093	\$64,781	59.4%	Master Suite Addition	\$101,571	\$67,037	66.0%	↓
\$21,962	\$16,183	73.7%	Minor Kitchen Remodel	\$21,246	\$16,881	79.5%	↓
\$22,391	\$12,227	54.6%	Roofing Replacement	\$18,825	\$12,336	65.5%	↓
\$10,724	\$8,455	78.8%	Siding Replacement (vinyl)	\$10,256	\$8,274	80.7%	↓
\$75,247	\$37,972	50.5%	Sunroom Addition	\$71,745	\$40,715	56.7%	↓
\$156,543	\$101,537	64.9%	Two-Story Addition	\$146,538	\$103,553	70.7%	↓