



# Sargeant Appraisal Service Rutland County Newsletter

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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](mailto:sean@sargeantappraisal.com) or give us a call at (802) 775-5916.

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## All Real Estate is Local

With daily turmoil in the US and world equity markets we are glad our focus is on the *local* real estate market, served by competent brokers and quality lenders. Thankfully, many of the mortgage products blamed for the current credit crisis were not sold in Vermont, and we continue to have one of the lowest foreclosure rates in the nation according to many data sources.

However, you cannot escape the constant stream of stories about the softness of the real estate market, especially in places like Florida, Nevada and southern California where price drops of 20-30% seem to be typical. Both the current and former Chairman of the Federal Reserve, Mr. Bernanke and Mr. Greenspan, have indicated a recovery in the national economy will closely follow the recovery of home prices across the nation. But what about Rutland, Vermont? Have home prices in our county dropped? If so, by how much? And when will they recover?

Currently, these are popular questions but the answers are not simple. Recently, we were asked to recertify the value of a home we appraised 13 months ago. Looking at the market and our professional obligations we concluded we could not recertify the value of the original appraisal by just checking a box on a form. We informed the client the only way we could answer their question was with a new appraisal based, as always, on the most recent and similar sales, as well as competitive active listings in the current market.

This does not mean values have gone down. It means our local market is, at the current time, so complex we cannot make blanket value statements. In this issue we will focus on sales, inventory and market data in Rutland County. In many cases, data are conflicting and there is, at this time, no one clear direction for all property types in Rutland County.

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## Rutland County Market Dynamics

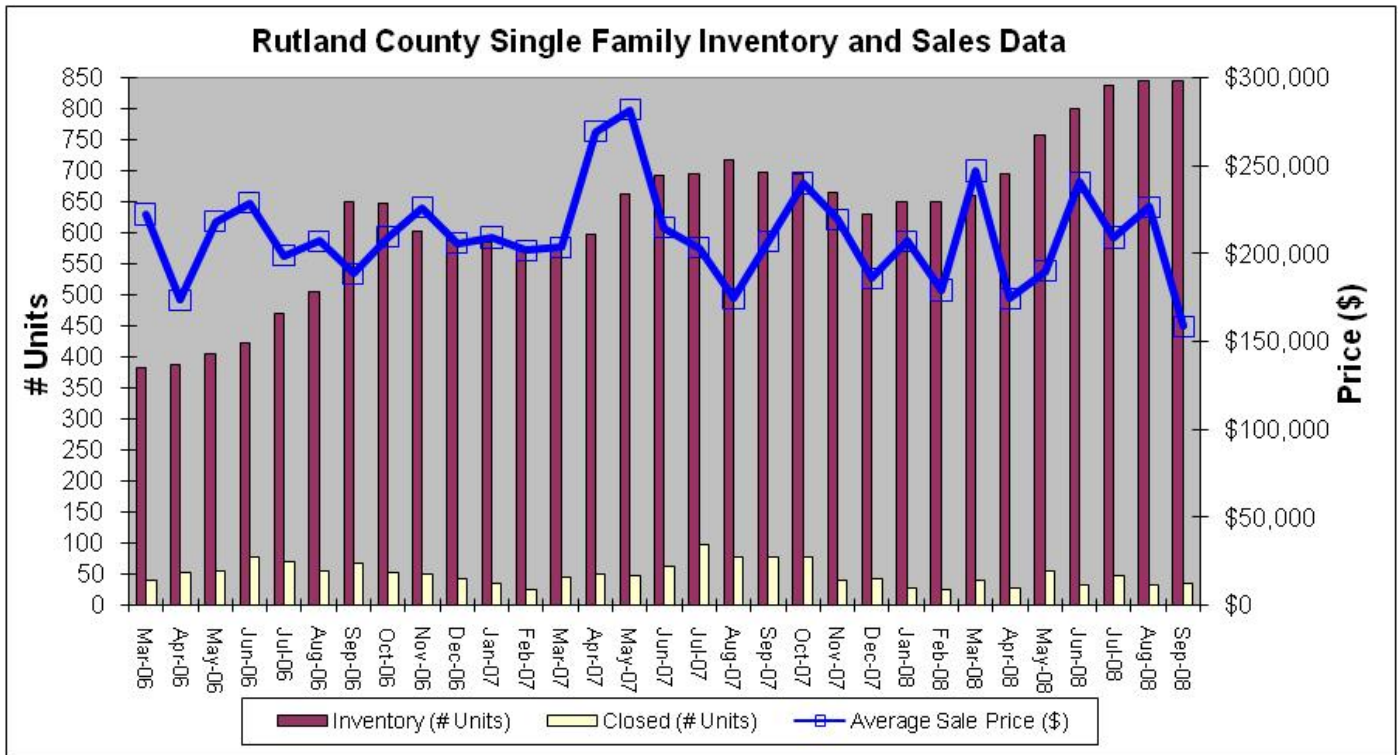
### Single Family Data:

Overall, the number of single family homes on the market for sale in Rutland County is slightly off the recent high of 846 homes in August 2008 and stood at 844 homes on October 1, 2008. 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. In the past four months, 150 single family homes have closed in Rutland County. Over this same period in 2007, 316 single family homes closed. As a result, the inventory level in 2007 was 9 months of supply. Overall, today there are 23 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 200 days. Homes that sold did so, on average, in 143 days. While there are differences in the absolute numbers by price range, these metrics have been trending up for the past 18 months.

There are property types, price ranges and a few specific sale and resale data which are soft. However, in opposition to the law of supply and demand, we have not seen an overall decrease in prices. The median single family sales price in 2008 is, year to date, \$182,500. This is 6% higher than the 2007 median sales price. Furthermore, the Office of Federal Housing Enterprise Oversight (OFHEO) Vermont home price index for the most recent quarter is up, 0.7%, year on year. Truly, this is a complex market. Now entering the historically slower winter sales period, how the market will react, remains to be seen.

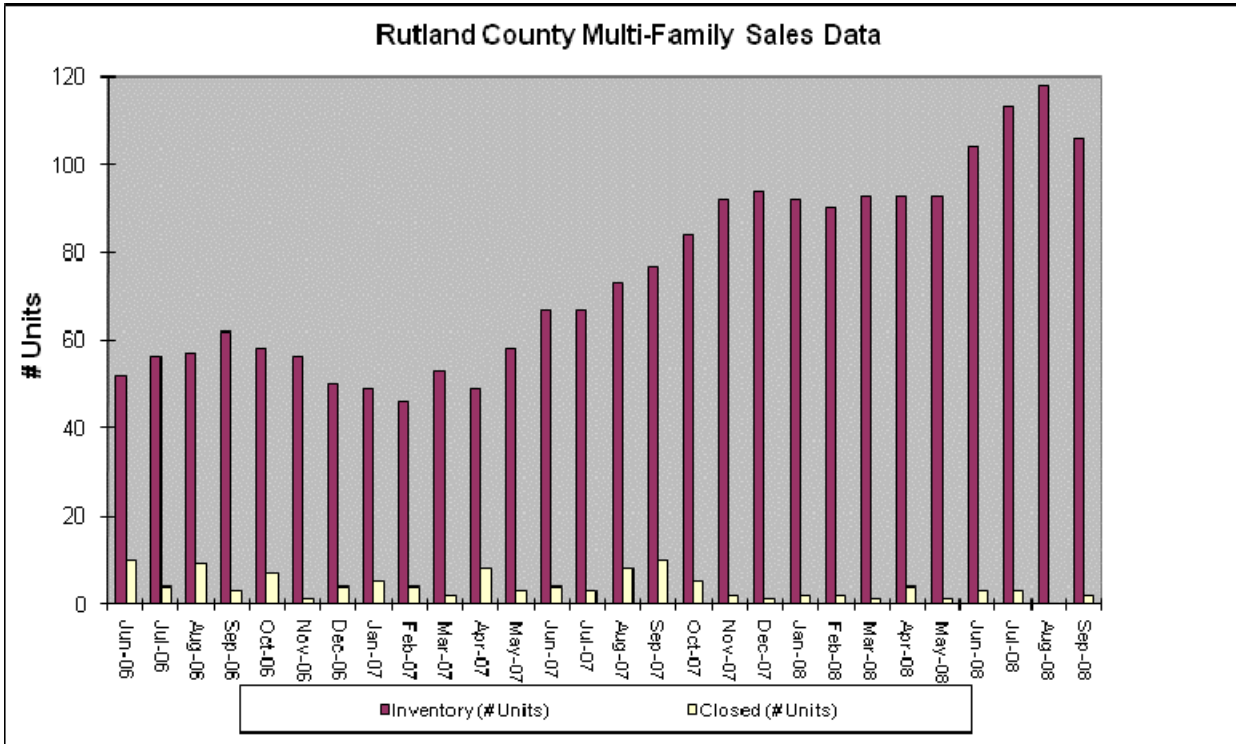


The metrics of marketing time and price reduction for single family home sales vary by price range. On average, a home listed at an asking price over \$500,000 will be on the market over 9 months. However, the market for homes below \$200,000, remains stronger with an average marketing time of 3 months.

| Price Range (\$k) | Average Days on Market Prior to Sale (days) | Average Reduction in the Initial Asking Price (%) |
|-------------------|---|---|
| 0-200             | 91  | 8   |
| 200-500           | 134   | 10  |
| 500+              | 281   | 12  |

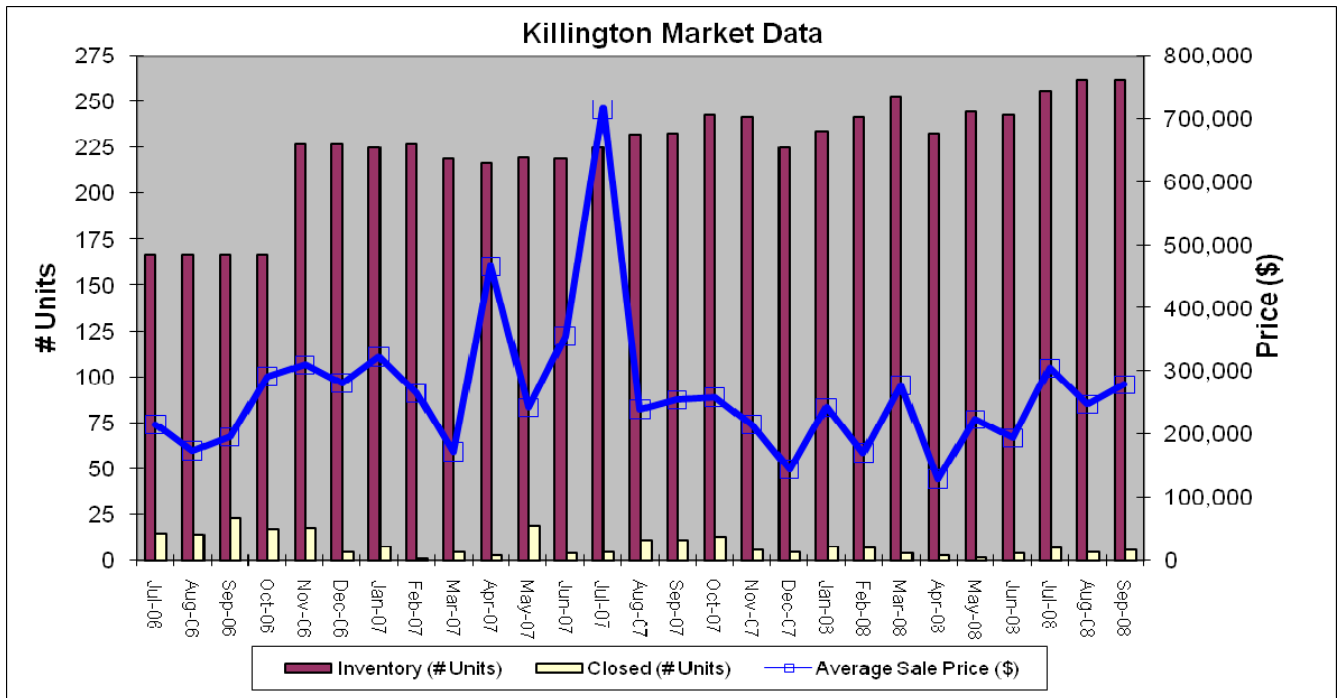
**Multi Family Data:**

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 recently peaked at 118 in August of 2008. Meanwhile, the sales pace is slow, with only eight sales over the prior four months of 2008 compared with 25 sales for this same period in 2007. This leads to unfavorable inventory comparisons of, currently, 49 months of multi-family inventory in Rutland County compared to a 14 month inventory for this same period in 2007. Due to the low number of sales and differences in the number of rental units, an average sales price calculation is not useful in this property class. However, the average multi-family property, actively offered for sale, has been on the market 151 days. The average multi-family property that sold did so after 183 days.



## Killington Market Dynamics

There are currently 262 single family homes and condominiums on the market for sale in the Killington region. On average, each has been on the market for 412 days. The sales pace across the past four months of 2008 was a total of 22 properties which compares unfavorably to the 31

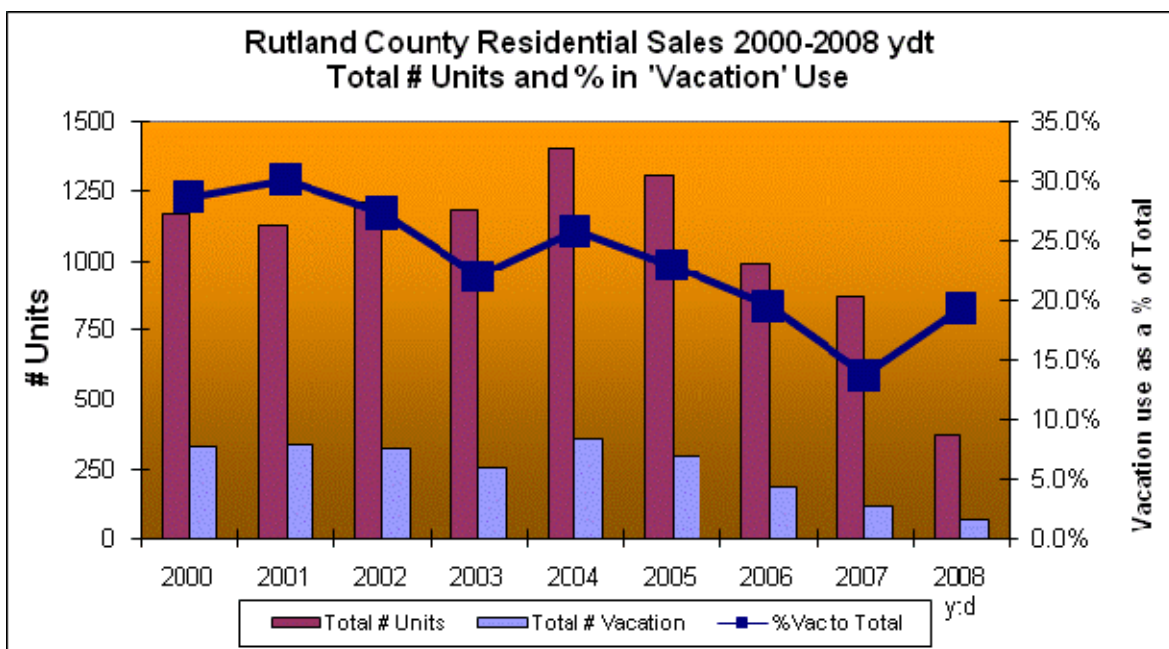
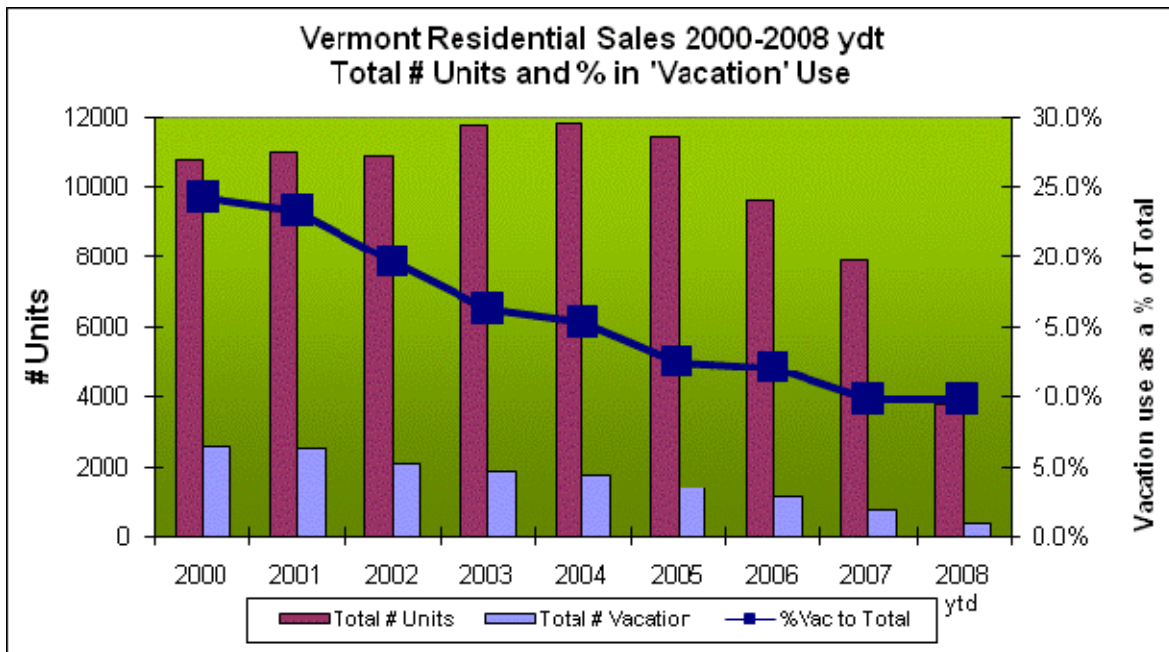


properties sold over the same period in 2007. Over the last four months the average marketing time prior to a sale was 377 days. Furthermore, the current inventory level is 48 months of supply compared to a 36 month supply over the same period in 2007.

## Vermont 'Vacation' Use Sales

The next data set comes compliments of Dagne Canney, Broker at Prudential, Green Mountain Realty in Rutland. Personally, as an engineer, I dislike data that causes you to ask more questions than it answers. This data set does just that. Typically, I would not present this sort of data until we did the research to answer the most obvious questions it raises. However, in this case, the data is just so darn interesting and the questions it raises so complex, we would like you to consider it as well.

Dagne studied residential sales in all of Vermont and in just Rutland County from 2000 to 2008. She then split out the percent of sales tagged for second-home, 'vacation', use in the Vermont Property Transfer Return database. Here are the results, year to date 2008 (ytd) is through 9/1/2008.



Looking at the state-wide data, in green, the percentage of home sales for vacation use has fallen, year on year, from 25% of all home sales in 2000 to only 10% of all home sales in 2008. Amazingly, this decline continues, unabated, through the economic slowdown in 2000, the world trade center attacks in 2001, the start of two wars, the real estate price bubble of 2004-2006 and the current credit crunch. This trend, repeated in the Rutland County data in orange, is not as pronounced due to the large vacation destinations in our county relative to the entire state.

Vermont actively markets itself as a vacation destination. Last year, over \$2 Billion was spent in Vermont on vacations and tourism. This generated +/- \$200,000,000 in state tax revenue. Locally, the service industry, which dominates Rutland County employment rolls, is dependent on the ski areas to our east and lakes to our west to bring visitors to our region. Currently, the prosperity of both our state and region are dependent on tourism and vacationers.

Therefore, we should be concerned about the obvious questions raised by this data set. These include; Why, year on year, is the percentage of vacation home ownership in decline? Are more people choosing to move here permanently rather than buy a second-home? Are more vacationers choosing to use hotels and rental properties? Or, Are less choosing to vacation and buy second homes in Vermont? If so, are we losing buyers to other local vacation destinations? How does this purchase trend compare with changes in tourism revenue over the same time period? Finally, if this trend continues, what does it mean to the economy of the state and, specifically, Rutland County?

This is a 'macro' trend that does not seem to be influenced by specific events over the past 8 years. We believe these questions should be studied at the state level and, when our new slate of state senators and representatives is chosen next week, we will share this data with them as well.

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## New FHA Appraiser Requirements

Do you originate FHA insured loans? The FHA has changed their appraiser requirements.

Effective October 1, 2008, FHA will accept new applications only from state-certified appraisers. No new applications will be accepted from state-licensed appraisers as a result of the Housing and Economic Recovery Act of 2008, signed July 30, 2008. FHA will issue a mortgagee letter in the next couple of weeks that will address additional requirements mandated by the new law.

Here at Sargeant Appraisal, both Sean and George are currently FHA certified appraisers and meet all the new requirements. In addition, Sean just received his Certified Residential license from the state of Vermont, now meets all the requirements for his SRA designation and has applied to the Appraisal Institute.

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## Appraisal Issues in the Current Market

Sargeant Appraisal Service is keenly aware of the current atmosphere and concern in mortgage underwriting. We understand the pressure you are under to prepare a solid origination package. The appraisal is just one small piece of the submission and you need a competent appraisal that meets your customer's standards.

However, when it comes to the appraisal, it seems the cards have been stacked against you. Typically, you are working with an underwriter from a metropolitan area who is now pre-programmed to expect a market with prices in decline. They may not understand the rural areas which make up large portions of the county. Even in the best years we have few arm's length sales in many towns. This year, with the sales pace off up to 50%, data is even scarcer. For example, over the last 12 months there have been only four arm's length single-family sales in Mendon and only 10 in Pawlet. If you are lending on a property in Mendon what are the chances one of these four will truly be a comparable? Three comparables within 6 months and 1 mile is just not possible outside of some property types in Rutland City. In fact, in the western part of the county, there may

not be 1 comparable sale within the subject community over the past 12 months.

We understand this and, as 'Service' is in our name, we have made specific investments and improvements to make your job easier. These include:

- Investments in training. Over the past 12 months we have attended 140 hours of classroom education and passed seven additional examinations.
- Investments in licensing. Sean just completed 210 hours of education and 2,500 hours of experience to receive his Certified Residential license from the state of Vermont. In addition, he meets all the requirements for his SRA designation from the Appraisal Institute for which he has applied. On November 5, he will begin the education and testing requirements for a Certified General license.
- Investments in hardware and software. In 2008 we spent over \$7,000 replacing all our hardware, software, and databases to be able to offer you the best turn-around times by significantly improving our internal processes.
- Improvements in our analysis and reporting.
  - The three lines we get on form 1004 to report the 'market conditions' are not appropriate in the simplest of markets and, in this market, if this is all you get in an appraisal you can expect your underwriter to have questions. Every one of our reports contains a page-long specific market analysis with the type of data presented in this newsletter so your customer has a chance to understand the current market in which the subject property competes.
  - When appraising in the more rural locations your customer may not understand it is physically impossible to include three comparable sales within 90 days and 1 mile. In these cases we include a Neighborhood and Market Area addenda that explains the local housing density, recent sales data and market area which may include several towns in which properties effectively compete.
  - Everyone loves Comparable Sales 1-3, but, many times there is additional, appropriate, sales data. Since the overall market has been flat with neither a noticeable price increase nor decrease over the past 18 months, slightly older data can, at times, be appropriate and applicable to an appraisal assignment. As a result, the vast majority of our analyses contain between 4 and 9 comparable sales which are appropriate in the current market and increase the credibility of our opinion of value.
  - In this complex market we have property types, like 2-4 families, with years of inventory competing for a limited number of buyers. In these cases, market value can actually be capped by active listings under the economic principle of substitution that says a buyer will not pay any more than they currently could for a property of equally desirability and utility. As a result, in over 90% of our residential analysis we include pending sales and active listings which compete in the market with the subject property.

If your underwriting is being held up by questions on the appraisal you may want to see the difference Sargeant Appraisal Service can make in your workload.