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Appraisal Report:
Defining 'Normal' Marketing Time

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As an appraiser, I am constantly asked, "What is the normal marketing time in your area?" That type of broad-based question compares to "How much is a new car?"

Most metropolitan areas maintain good aggregate MLS statistics that can paint a good picture of overall market performance, but what do you do if you need accurate information for a specific subdivision? Hopefully, this is where the appraiser's job starts.

During the appraisal process, it is imperative to determine the following data for each comparable property to make an accurate forecast regarding the marketing time and price relationships:

1. length of time from list to sale;
2. sale price;
3. original list price;
4. subsequent price reductions prior to sale; and
5. previous sale price.

The answers to these five questions provide the appraiser with the number of days on the market, the sale/list price ratio, and the general trend of activity.

The general trend of activity is the most important factor of all, and may indicate to us a rapid decline in activity/prices, stability, or even no change from past listings by the same agent. Firsthand conversation with local agents about a neighborhood really has no substitute when substantiating statistical information.

Probably the next most asked question is, "What if we extended the marketing period of the property to six months or more?" Recently, this question was addressed by Bill Stanley of Moore & Company's south suburban Denver, CO, office. His study draws some interesting conclusions from the sale of 55 homogeneous single-family residences over a nine-month period.

Overpricing May Cost
During the nine-month study, 55 single-family homes located in Willow Creek I and II were sold and closed. Of these, 25 were properly priced when put on the market initially; and 30 were overpriced (Overpriced homes were identified by the need to reduce the price one or more times before they were sold.). 20

Properly priced homes average sale price:	$145,433
Overpriced homes average sale price	$138,340
Difference in sale price	$ 7,093

Properly priced average days on market	66
Overpriced average days on market	171
Difference in days on market	105

The study suggests that a properly priced home sells faster, and on the average, for more money than a home that originally is marketed above what the market perceives as a reasonable price.

Furthermore, the study would suggest that if your house sold faster than 66 days, it possibly was underpriced, or longer than 171 days, it probably was overpriced.

With a statistical study like this in hand, let us go back to the original question. The appraiser must first understand the market in which he or she is appraising (appreciating, depreciating, or stable). Next, the appraiser must understand the client's needs (holding costs, motivations, definition of market value, etc.) In a market with declining values, extending the marketing period should create greater losses for the corporate seller. In a stable market, holding costs become a factor, i.e., marketing time. In an increasing market, the potential for greater profit exists upon resale if the gains can out-pace the holding costs for the vacant property.

Pricing
The vacant corporate-owned property becomes a burden if held too long unsold, which brings us to the topic of price. In a market such as Denver's, in neighborhoods with an oversupply of homes, the "sharp" buyer perceives the vacant property as vulnerable to the potential burden of the "best buy" syndrome. As a result, this property attracts low offers. After enough low offers are rejected, the agent network looks on to fresher, vacant properties. This affects this property's perceived value. As a result, the potential for achieving a sale within the acceptable range of the appraisal value is reduced.

This is a perfect example of how marketing techniques and strategy can greatly affect sale price and marketing time. A more normal market may have an owner/occupant seller with living expense and holding costs being equal. In this case, the owner has the ability to wait a reasonable time (while not advertising the "burden" previously discussed) to attract a motivated buyer. The result in our market has been that vacant homes have sold for less than occupied properties.

These two examples demonstrate the very close relationship between price and marketing time requirements. So, next time someone asks, "What is the normal marketing time in your area?" you can reply by saying, "That depends on price," "Will the home be vacant or occupied?" and "Who is the seller?"

However troublesome, the problems of marketing strategy are here to stay and the corporate-owned property in many markets has become a target. In the long run, this affects all of us in this service industry called relocation. Hopefully, our answers and expertise as professionals can solve these problems by creating positive "one step ahead of the crowd" results.

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