

FOCUS ON REAL ESTATE

Caution! Not All House Prices Have Declined

BY PAUL G. JOHNSON, CRE, MAI

A DAY DOES NOT GO BY WHEN THE NATIONAL and international press do not report with great authority that house prices, typically a median, have declined significantly—across the board, for all markets, for all price ranges, worldwide. Wall Street blames most of its woes on the “subprime” problem, alleging that [delinquent] mortgages are now higher than the declining house values. This is misleading. The reality is that today’s databases include an extraordinary number of distressed (subprime) transactions, which distorts the true price behavior, especially as compared with historically healthier property markets—or at least, healthier property owners.

My Uncle Joe, a past national president of the former United States Savings & Loan League and an advisor to presidents, had a simple underwriting mantra, “Paul, the only time a loan goes bad is when the borrower can’t make the payments.” If only Wall Street had listened to Uncle Joe!

The problem with these headlines, as is often the case, lies in the databases from which these dire circumstances are calculated. Most databases are based upon county assessor or county recorder public records (assuming disclosure) which, best case, include all recorded transactions regardless of validity. Usually, every foreclosure, every short sale, every quit claim deed, every bailout, every payoff, etc., is included in the unfiltered, unexamined, global databases relied upon by the media and their sources. Let’s call this Dirty Data.

Real estate professionals recognize that the legal definition of Market Value assumes, among other things, that sellers are “willing.” Clearly, many of the transactions in

these Dirty Databases did not include willing sellers, and said transactions should not be included in any analysis addressing “Value.” Thus, when microscopically examining the market, it would be appropriate to recognize that the national and local media are dealing with Dirty Data when comparing median prices over time.

Regardless of Dirty Data for the moment, by definition there are as many sales above the median as below. So, when contemporary databases with distressed transactions are processed by various software programs, the resultant median includes the Dirty Data—much more than might be found in the same databases two or more years ago.

The practical problem is that it is impossible or, at a minimum, too costly to filter all the data in order to exclude the distressed and non-market transactions which distort historic median comparisons.

This is not to suggest that there is not a serious problem on Wall Street. There is. Securitization, new products and

About the Author



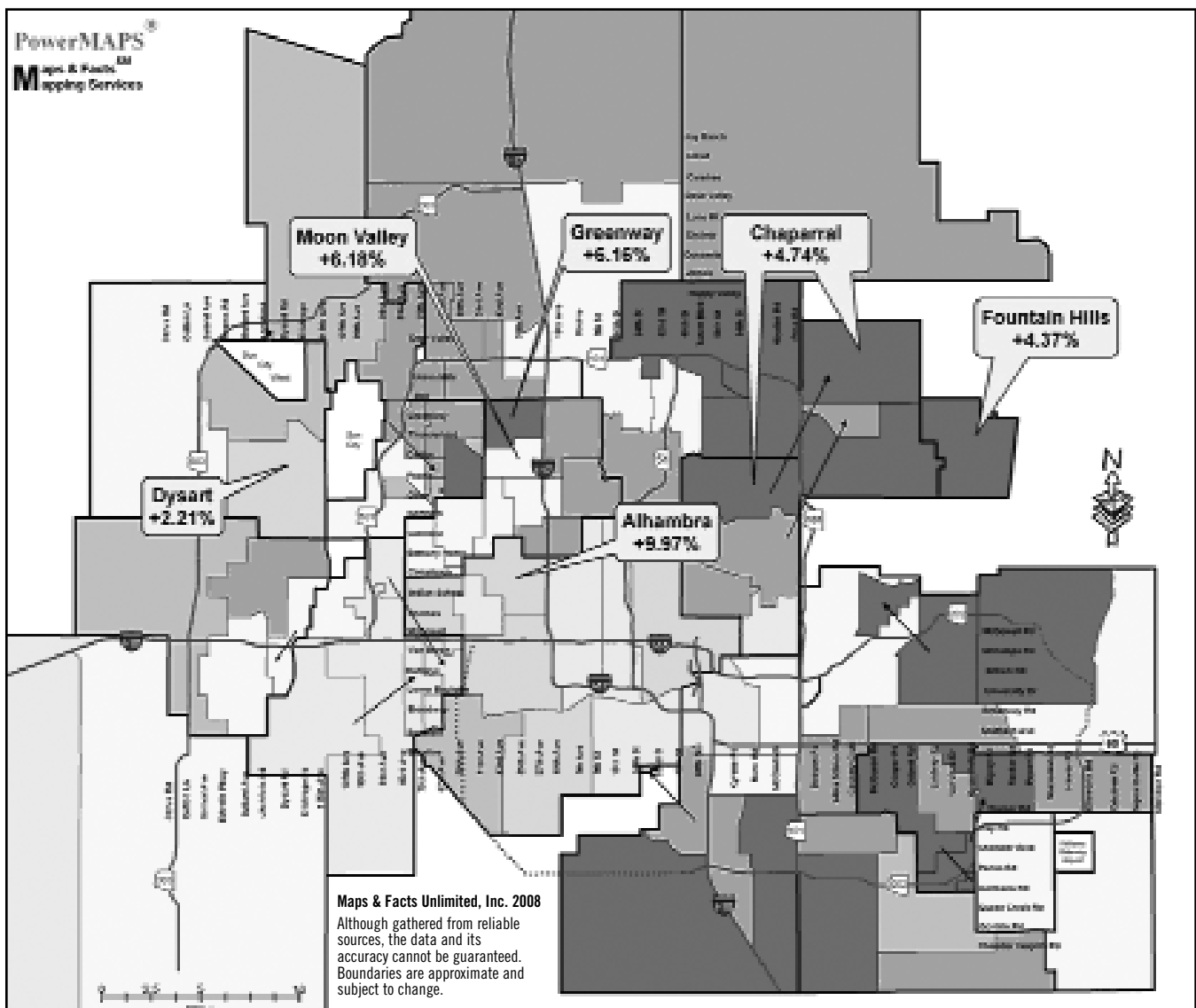
Paul G. Johnson, CRE, MAI, is president of The Paul G. Johnson Company, Inc., Phoenix. Currently, he specializes in construction defect litigation. Johnson has served as an expert witness on topics including groundwater contamination, expansive and unstable soil, commercial, residential and mixed-use, airport noise, landfills, and condemnation. Johnson’s articles have been published in *Real Estate Today*, *Forum*, and *Real Estate Educators Association Journal*. He earned a bachelor’s degree in economics from Lafayette College in Easton, Pennsylvania.

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relaxed regulations have enabled the unsound lending and underwriting practices which have led to our current crisis. However, at the Main Street level, not all property values have declined. If the distressed, non-market transactions were excluded from the databases relied upon by the national press and/or their sources, the comparative results would be far different and less frightening. Believe it or not, absent distress, some sub-markets may have appreciated.

Maps & Facts Unlimited, Inc., in Phoenix, Arizona, has been tracking residential appreciation rates based upon paired (not median) sales since the early 1990s. Paired sales compare sales and resales of the same property expressed as an annual change rate or percentage.

In December 2007, Maps & Facts examined paired sales in six geographically diverse high school districts in Metropolitan Phoenix to study their respective paired appreciation rates from January 2005 through November 2007. These districts were selected geographically based upon their size and the number of paired sales during this comparatively narrow time period. Initially, the raw Dirty Data mimicked the national press reports that prices had declined significantly. However, on closer examination, it was apparent that a significant percentage of the "sales" (perhaps 25 percent) were not sales but represented distressed (subprime), non-market transactions and outliers.



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The map shows that after excluding the Dirty Data, from January 2005 through November 2007, prices actually increased.

In conclusion, absent a distressed seller or lender, housing prices have not only held steady since early 2005, but may have experienced the historical normal appreciation rate

of three to six percent per year.

While the data is Metro Phoenix-centric, given Metropolitan Phoenix's size, record new construction, resales, and population growth statistics, Phoenix is easily an excellent proxy for the U.S., if not international markets with similar subprime lending practices. ■

School Name	School District	2007 School Score	Median AAR (Annual Appreciation Rate)	2005 Median Sale Price	2007 Median Sale Price	Total Sales Meeting AAR Criteria	Total Sales Used Meeting AAR Criteria	Lender Involved Transactions	% Sales Used Meeting AAR Criteria
Chaparral	Scottsdale Unified	97	4.74%	\$450,000	\$491,500	130	58	31	44.62%
Fountain Hills	Fountain Hills Unified	91	4.37%	\$437,000	\$460,000	154	67	48	43.51%
Greenway	Glendale Union	91	6.16%	\$196,350	\$219,500	82	28	36	34.15%
Moon Valley	Glendale Union	78	6.18%	\$185,000	\$212,500	88	31	37	35.23%
Alhambra	Phoenix Union	57	9.97%	\$170,000	\$200,000	138	27	67	19.57%
Dysart	Dysart Unified	56	2.21%	\$199,950	\$206,950	92	28	49	30.43%

Appreciation by Select High School District Paired Sales Jan. 2005 thru Nov. 2007

Excluding Distressed Sales & Outliers

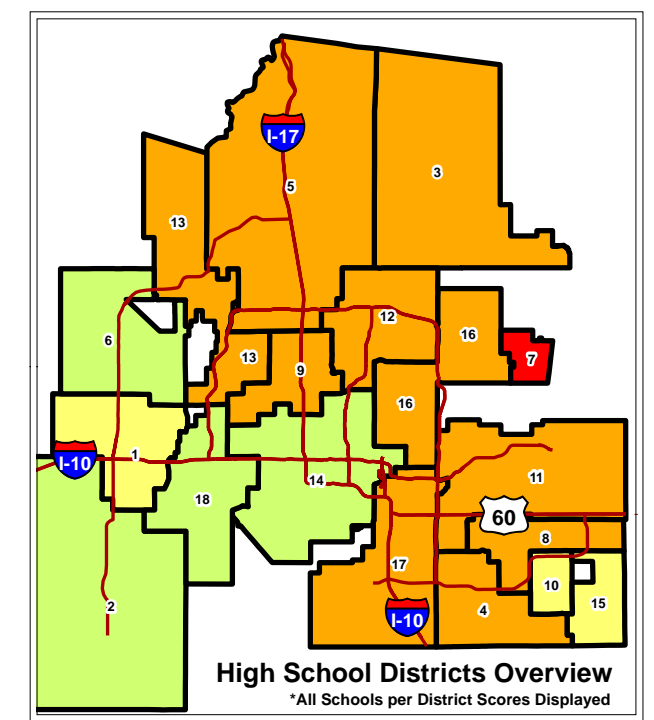
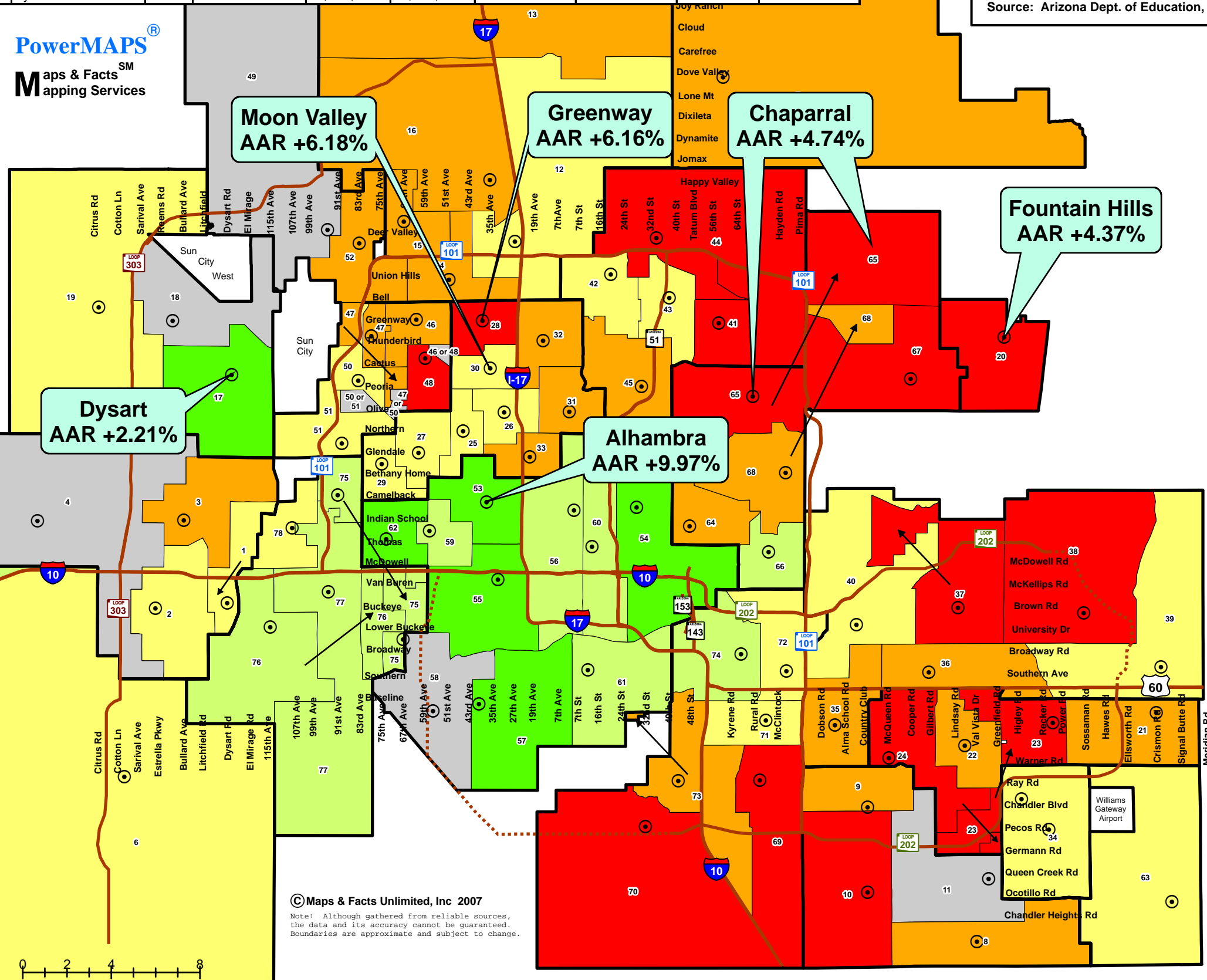
Source: Arizona Dept. of Education, Security Title, The Information Market & Maps & Facts Unlimited

ID	School	Score
1	Agua Fria	71
2	Desert Edge	71
3	Millenium	83
4	Verrado	N
5	Buckeye Union	63
6	Estrella Foothills	78
7	Cactus Shadows	86
8	Basha	89
9	Chandler	52
10	Hamilton	91
11	Perry	N
12	Goldwater	74
13	Boulder Creek	84
14	Deer Valley	85
15	Mountain Ridge	88
16	Sandra Day O'Connor	87
17	Dysart	56
18	Valley Vista	N
19	Willow Canyon	73
20	Fountain Hills	91
21	Desert Ridge	84
22	Gilbert	88
23	Highland	91
24	Mesquite	90
25	Apollo	78
26	Cortez	73
27	Glendale	72
28	Greenway	91
29	Independence	78
30	Moon Valley	78
31	Sunrise	85
32	Thunderbird	83
33	Washington	81
34	Higley	73
35	Dobson	52
36	Mesa	81
37	Mountain View	90
38	Red Mountain	90
39	Skyline	73
40	Westwood	70
41	Horizon	92
42	North Canyon	74
43	Paradise Valley	78
44	Pinnacle	80
45	Shadow Mountain	84
46	Cactus	84
47	Centennial	83
48	Ironwood	59
49	Liberty	N
50	Peoria	75
51	Raymond S. Kellis	78
52	Sunrise Mountain	57
53	Alhambra	57
54	Camelback	90
55	Carl Hayden	52
56	Central	68
57	Cesar Chavez	58
58	Fairfax	N
59	Maryvale	83
60	North	68
61	South Mountain	63
62	Trevor Browne	59
63	Queen Creek	78
64	Arcadia	87
65	Chaparral	52
66	Coronado	88
67	Desert Mountain	90
68	Saguaro	84
69	Corona Del Sol	50
70	Desert Vista	58
71	Marcos De Niza	74
72	McClintock	78
73	Mountain Pointe	88
74	Tempe	61
75	Copper Canyon	80
76	La Joya	64
77	Tolleson Union	65
78	Westview	71

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Percent of Students Meeting or Exceeding Standard

- 90 - 97
- 80 - 89
- 70 - 79
- 60 - 69
- 50 - 59
- Less than 50
- School Location
- Optional School Boundary Areas or New High School



- High School Districts Overview**
*All Schools per District Scores Displayed
- | | | |
|-----------------------------|----------------------------------|------------------------------|
| 1. Agua Fria Union (75) | 7. Fountain Hills Unified (91) | 13. Peoria Unified (83) |
| 2. Buckeye Union (87) | 8. Gilbert Unified (87) | 14. Phoenix Union (60) |
| 3. Cave Creek Unified (86) | 9. Glendale Union (81) | 15. Queen Creek Unified (78) |
| 4. Chandler Unified (87) | 10. Higley Unified (79) | 16. Scottsdale Unified (87) |
| 5. Deer Valley Unified (84) | 11. Mesa Public Schools (81) | 17. Tempe Union (84) |
| 6. Dysart Unified (66) | 12. Paradise Valley Unified (82) | 18. Tolleson Union (66) |

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Note: Although gathered from reliable sources, the data and its accuracy cannot be guaranteed. Boundaries are approximate and subject to change.

