

THE REAL DEAL

NEW YORK REAL ESTATE NEWS

When comps fall short

July, 30, 2008

When sales velocity is slow it can be difficult to accurately price a home.

Typically, real estate brokers look to comparable sales data, or comps, to find out what similar homes in the seller's building and neighborhood have sold for. But if there is a dearth of sales, as is the case now, the data becomes thin.

"We're in a whole new world. Pricing right now in this market is very hard," said Kathy Braddock, co-founder of real estate consulting firm Braddock + Purcell and the New York City real estate company Charles Rutenberg Realty.

Can a broker use closed sales from as far back as a year ago, which reflect deals negotiated before the credit market erupted? What about from six months ago, with those sales going to contract at the end of 2007 in the wake of the meltdown?

Some real estate experts are looking back even further to increase the reliability of their pricing, while others are focusing on current listings.

"We are using the same tools for comps, but also looking at how the prices are comparing to the previous one to two years," said Eddie Shapiro, president and CEO of Nest Seekers. "The idea is to try and identify inflated values as opposed to legitimate rates of appreciation — with all the relative considerations including location, neighborhood, exposure, presentation and condition."

In this market, Stacey Max, an executive vice president and sales manager at Bellmarc Realty's Downtown office, prefers to rely more heavily on listings currently on the market rather than older, completed sales.

"This reflects what the competition is for that property," Max said. "In the past, we used to be able to assume that we could get a higher price than the previous sale in any particular building, and right now that is no longer the case."

But not everyone agrees with that approach.

Jonathan Miller, president and CEO of appraisal company Miller Samuel, said that while the data set is smaller today, he prefers not to look at older data or depend more heavily on listings just to accumulate more data.

"We're spending more time trying to flesh out more recent data just because it's harder to obtain," Miller said. "We've noticed compared to last year, there are fewer sales. So it's more challenging."

By fleshing it out, Miller means talking to the parties involved in a previous sale, getting hold of the actual listing, verifying the square footage, and getting details about all of the amenities beyond what is on the listing.

In rare cases, where little information is available for computing comps, such as in the case of an unusual penthouse, Miller will look back even further.

Miller said his typical methodology includes looking at listings, contracts and closings over the last six months, with emphasis placed on the last month or two.

But relying on listings in this market tends to be less useful than it was a year ago, because "they're rising in number and the average marketing time is expanding," Miller said.

As listings increase, so does competition among sellers, making accurate pricing more critical to closing a transaction.

"It's more challenging now because of the uncertainty, and there's a lot of misinformation out there," Miller said. "National housing statistics have nothing to do with the local market."

As Noah Rosenblatt, a vice president at Halstead Property, pointed out on his site urbandigs.com at the end of June: "If you think you can fool a buyer into paying a 10 percent premium over 2007 comps, think again!"

Still, some real estate pros said they have not altered their approach to testing the market.

Andrew Gerringer, a managing director at Prudential Douglas Elliman who oversees new development marketing, said that his comps approach has not changed.

"The comps we are using are based upon closed sales and current contracts out in a particular market," Gerringer said. "However, this is no different than how we have always approached this." He noted that he uses comps from the past three to six months.

Frederick Peters, president of Warburg Realty Partnership, said he continues to focus on the here and now.

"I always tried to use very current comps," Peters said. "Even if you went back six months, the numbers were never good. Actually, nowadays the comps are easier to use, since we try to persuade sellers in most markets to peg their pricing to the last sale."

Author: Lauren Elkies

Copyright © 2007 – The Real Deal, Inc. , 158 West 29th Street New York, NY 10001 , 212-260-1332