

The Residential Report

Sales & Prices Up - Inventory Down

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Nashville's residential real estate market was at record levels for sales volume in 2004. There were 36,496 closings (including residential, condominium, multi-family, and land) reported through year end, which is up 14.4 percent over the 31,855 closings reported in 2003. This was matched with a 13.0% decline in inventory from 14,097 at year end 2003 to 12,258 at the end of 2004 for all property types listed in the regional multiple listing service.

Increases in sales rates and declining inventory, coupled with comparatively low interest rates during the peak summer selling period lead to demand driven price appreciation in many Nashville and Williamson County neighborhoods. This is evidenced by general improvements in rates of value change in many of the areas studied. Historically, rates of change in property values have followed a stair step pattern, with stable markets following periods of higher appreciation.

Belle Meade saw an exceptional rate of appreciation, following only modest appreciation in 2003. The Belle Meade market reflects the upper end of the price range in Middle Tennessee. Two factors impacting the rate of appreciation in Belle Meade. The first was the improving overall economy in 2004. The economic strength in 2004 and the weakness 2003 had its greatest impact on those who can afford homes in the Belle Meade price range. The second factor is the inventory of homes at the upper price ranges. As of 1/13/2005 there were 90 homes offered in MLS between one and two million dollars, with 20 acres or less. There were 93 sales in that price range in 2004. That would equate to an 11.6 month inventory. While that inventory is high, it is a modest decline from prior years.

An additional factor affecting the

market in Belle Meade, Green Hills, and West Meade is the demand for building sites. Teardowns continue to be common in Belle Meade, and are significantly more common in West Meade and Green Hills. Demand for building sites is impacting the lower end of the market in these neighborhoods, by setting a lower limit on pricing regardless of size or condition.

The jobless recovery is the primary factor that limited appreciation in more modest priced areas in 2004. These areas had rebounded in 2003 from declines in 2002. In these areas the majority of sellers assist the purchaser by paying some or all of the closing costs. These costs are typically reflected in a higher than market sales price. While a portion of the appreciation is due to inflation, a significant portion can be attributed to the seller paying closing costs.

The penchant for buyers to demand or expect seller paid closings costs has been expanding both in loan type and price range. It is not unusual for homes that have been on the market for a while to sell for in excess of the list price, as these costs are added to the purchase price. A few years ago this practice was limited to FHA and VA loans and to the most modest priced homes. Now buyers are negotiating seller paid closing costs for conventional loans and at higher price levels.

NOTE: Not all areas or sales were studied; statistical samples vary by area. The information in this study is general; it is intended as a guide. Each property should be considered individually through an appraisal or comparative market analysis in order to estimate its market value.

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METHODOLOGY

A representative sampling of data from each area is collected from the Middle Tennessee Regional Multiple Listing Service, which inputs the data from County Tax Assessor's records. Properties that qualify for analysis are arm's length transactions where the home was originally purchased between 1985 and 2003 and resold in 2004. Listing information is analyzed, and sales with significant alterations that would affect value are excluded. The amount of appreciation or depreciation is then calculated from each qualifying transaction. The individual transactions in each neighborhood are considered as a whole and a rate of change estimated.

New construction is not applicable to the study's methodology and is not included. Not all areas or sales were studied; statistical samples vary by area. The information in this study is general; it is intended as a guide. Each property should be considered individually through an appraisal or comparative market analysis in order to estimate its market value.

EXAMPLE USING WEST MEADE

The indicated annual rates of appreciation are based on composite annual indications for a net effective rate. Based on these estimates two different homes purchased in West Meade for \$100,000, one in January of 1985 and the second in January of 1990 would have had the following estimated value in December of each year based on the rates of change estimated in the table above.

In the first example, the house would have appreciated 6% in 1985 to \$106,000. In 1986 that \$106,000 would have appreciated 6% to \$112,360, and in 1987 that \$112,360 would have appreciated 2% to \$114,607, and so forth.

In the second example the house would have depreciated 2% by the end of 1990 to \$98,000. It would remain the same in 1991, then it would appreciate 3% in 1992 to \$100,940, and so forth to \$159,286 in December 2003.

It is important to note that the total appreciation rate over a period of years can not be calculated by simply adding the annual rates of change. Adding the rates would not take into consideration the effect of compounding.

Example One

January 1985	\$100,000
December 1985	\$106,000
December 1986	\$112,360
December 1987	\$114,607
December 1988	\$114,607
December 1989	\$112,315
December 1990	\$110,069
December 1991	\$110,069
December 1992	\$113,370
December 1993	\$119,039
December 1994	\$128,562
December 1995	\$137,561
December 1996	\$147,191
December 1997	\$154,551
December 1998	\$159,055
December 1999	\$160,646
December 2000	\$160,646
December 2001	\$163,859
December 2002	\$173,691
December 2003	\$178,902
December 2004	\$189,636

Example Two

January 1990	\$100,000
December 1990	\$ 98,000
December 1991	\$ 98,000
December 1992	\$100,940
December 1993	\$105,987
December 1994	\$114,466
December 1995	\$122,479
December 1996	\$131,052
December 1997	\$137,605
December 1998	\$141,616
December 1999	\$143,032
December 2000	\$143,032
December 2001	\$145,893
December 2002	\$154,647
December 2003	\$159,286
December 2004	\$168,843

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ANNUALIZED RATES OF CHANGE IN MARKET VALUE

	2004	2003	2002	2001	2000	1999	1998
Green Hills	6.0%	7.0%	1.0%	4.0%	1.0%	2.0%	2.0%
Belle Meade	12.0%	1.0%	5.0%	3.0%	0.0%	2.0%	2.0%
West Meade	6.0%	3.0%	6.0%	2.0%	0.0%	1.0%	1.0%
Bellevue	4.0%	3.0%	2.0%	4.0%	1.0%	0.0%	0.0%
Antioch	2.0%	-1.0%	-5.0%	3.0%	0.0%	1.0%	2.0%
Priest Lake	4.0%	2.0%	-1.0%	-1.0%	1.0%	2.0%	-1.0%
Donelson	1.0%	4.0%	-1.0%	5.0%	4.0%	2.0%	2.0%
Brentwood	7.0%	3.0%	1.0%	2.0%	1.0%	0.0%	0.0%
Franklin	4.0%	3.0%	2.0%	2.0%	2.0%	0.0%	0.0%
Averages	5.1%	2.8%	1.1%	2.7%	1.1%	1.1%	0.8%
	1997	1996	1995	1994	1993	1992	1991
Green Hills	6.0%	8.0%	6.0%	8.0%	6.0%	0.0%	-1.0%
Belle Meade	6.0%	10.0%	8.0%	10.0%	7.0%	3.0%	-3.0%
West Meade	5.0%	7.0%	7.0%	8.0%	5.0%	3.0%	0.0%
Bellevue	5.0%	8.0%	6.0%	6.0%	4.0%	1.0%	0.0%
Antioch	3.0%	7.0%	5.0%	5.0%	2.0%	2.0%	0.0%
Priest Lake	4.0%	6.0%	6.0%	5.0%	2.0%	1.0%	0.0%
Donelson	4.0%	7.0%	5.0%	4.0%	3.0%	1.0%	0.0%
Brentwood	5.0%	8.0%	6.0%	7.0%	4.0%	2.0%	0.0%
Franklin	4.0%	8.0%	6.0%	7.0%	4.0%	2.0%	0.0%
Averages	4.7%	7.7%	6.1%	6.7%	4.1%	1.7%	0.0%
	1990	1989	1988	1987	1986	1985	
Green Hills	-2.0%	-3.0%	0.0%	2.0%	4.0%	7.0%	
Belle Meade	-3.0%	-3.0%	0.0%	4.0%	7.0%	10.0%	
West Meade	-2.0%	-2.0%	0.0%	2.0%	6.0%	6.0%	
Bellevue	-1.0%	-1.0%	0.0%	2.0%	4.0%	4.0%	
Antioch	-2.0%	-2.0%	0.0%	2.0%	4.0%	6.0%	
Priest Lake	-1.0%	-2.0%	-2.0%	0.0%	2.0%	4.0%	
Donelson	-2.0%	-2.0%	0.0%	2.0%	5.0%	6.0%	
Brentwood	-2.0%	-3.0%	-2.0%	0.0%	6.0%		
Franklin	-3.0%	-2.0%	0.0%	3.0%	6.0%		
Averages	-2.0%	-2.2%	-0.4%	1.9%	4.9%	6.1%	

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