

Massachusetts
Collector/Treasurers
Association

June 14, 2011

Cape Codder Hotel, Hyannis, MA

Thanks for inviting me to speak



My main theme over the next hour is

- Municipal finance from an assessor's perspective.

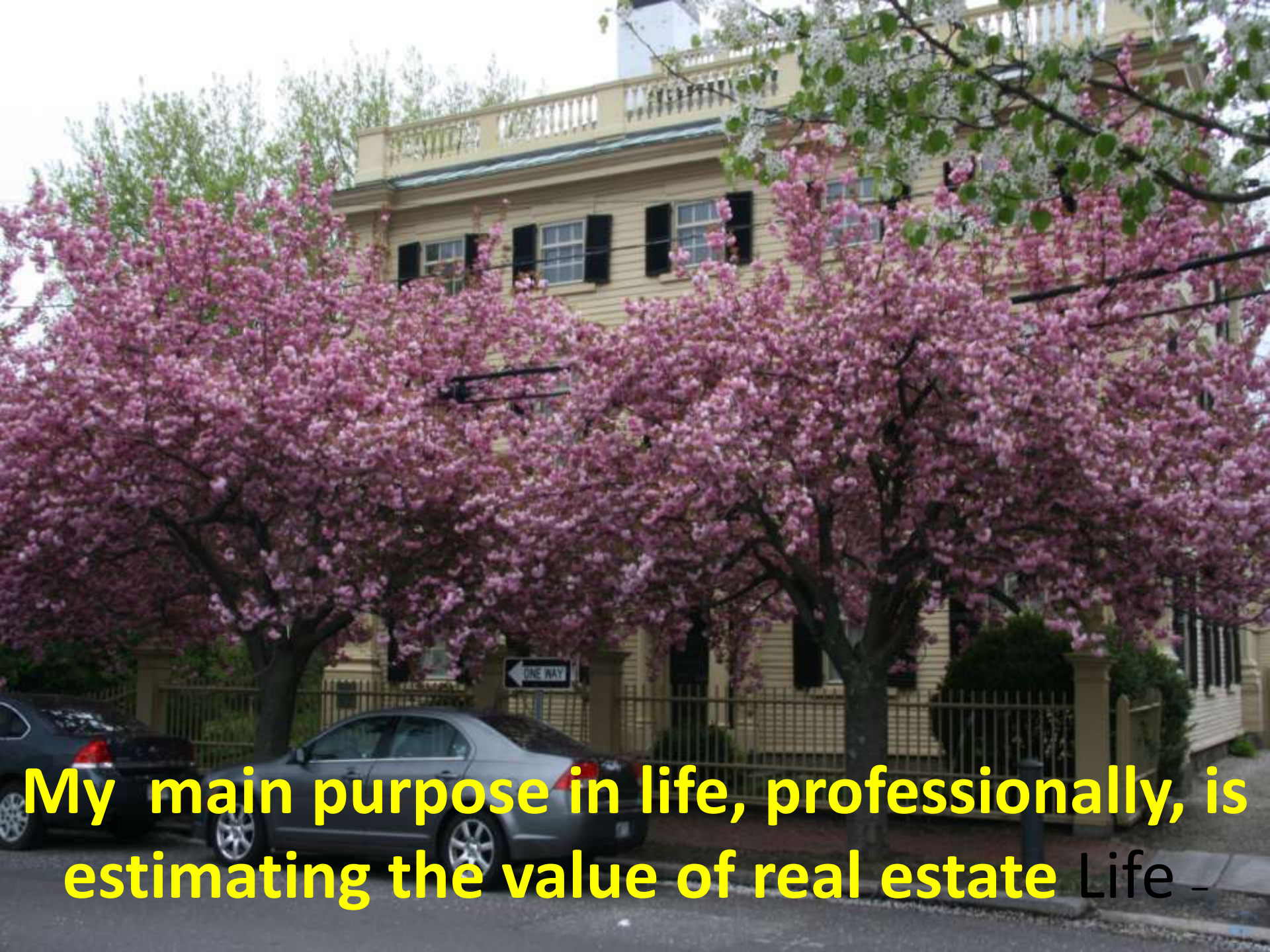
The views expressed in the presentation are my own, based on 17 years as an assessor and 30 years in real estate valuation.

They do not necessarily express any views or opinions of the Massachusetts Association of Assessing Officers or the International Association of Assessing Officers.

And finally, they are views made from being involved with the Collector/Treasurer's Association as an instructor for the past six years.

What do Assessors do and why

- Title superimposed over a post and beams home in Vermont.



My main purpose in life, professionally, is estimating the value of real estate Life -

Much of what we do is involved with the real estate market

- Estimating the values of real estate
- Explaining values and how they were developed
- Defending values before the taxpayer and, if necessary, in a legal proceeding
- This is done on an annual basis – year in and year out

Assessing Offices have two basic ways of operating

- A full time Board of Assessors bearing the total responsibility for valuing the town.
- A part time board that oversees and is ultimately responsible for the valuations within a community.
 - The latter usually has a valuation expert who bears the responsibility for overseeing values and their development.
 - The former usually farms out the task of valuations to a vendor.

It is no secret, what we do is allocate the levy

- By market value
- As of a certain date (January 1st)
- Market value has several criteria
 - Willing seller/willing buyer
 - Proper exposure to the market
 - Both parties working in their own best interest
 - Financing in terms of cash or its equivalent
 - What we refer to as an “Arms Length” Transaction

Well, what in fact is the “Real Estate Market”

- Simply put, it is the interaction of buyer and seller effecting the outcome of a purchase
- Not unlike the transaction that occurs when you purchase a car or any other commodity
- It is the repeated interaction of buyers and sellers that establish the market and set market trends
- The main factor that makes real estate unique

Fixity of Location

Real estate can not be moved.

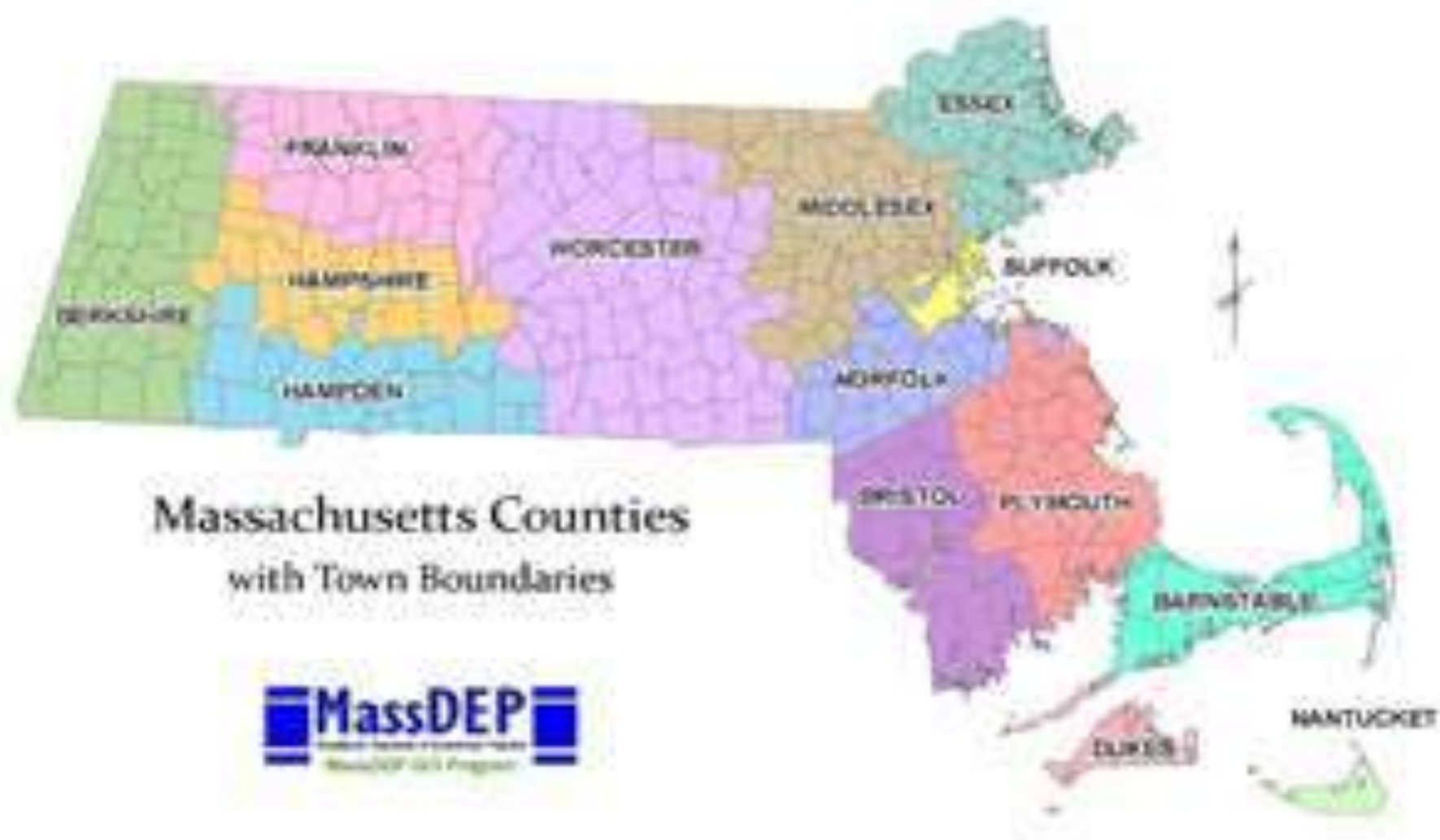
Unlike the “auto mile” or the Chestnut Hill Mall, where you can go to purchase what you desire.

There is no way of having a centralized real estate market.

And so, much of market value is determined by a scattered market place: **location**

It is not answering the question, what is it worth as much as

- What is this home worth, in this **location**.
- What does a new kitchen contribute to value, in this **location**.
- What is a swimming pool worth, in this **location**.
- What is an extra bath or extra bedroom contribute to value, in this **location**.



Other things that make the real estate market unique

- Real Estate purchases involve very large outlays of cash (financing)
- Transactions are highly regulated
- It usually takes a relatively long time to sell a home
- Markets develop slowly and change gradually
- Transactions are often misleading or convoluted

Understanding and interpreting the market is a complicated and time-consuming process

- Sales need to be examined individually
 - To see if they relate to the market.
 - Every sale within a community is recorded and researched by the assessing office.
 - Is the sales an “arms length” transaction.
 - A majority of the sales that occur are not.
 - If the transaction is arms length
 - Is the information that we have on the sale accurate?
 - Is the information that we have on the property correct?

How do most assessing offices do their research

- Reading the deed
- Sending out a questionnaire
- Reviewing the transaction through the local Multiple Listing Service (MLSPIN)
- Calling the broker involved with the sale and interviewing them
- Sales verification
 - Visiting the home and talking to the buyer, measuring the exterior and trying to view the interior

Program of Verification

- Since coming to Belmont, we have instituted a process of sales verification.
 - Every property that sells is visited (with notification).
 - Each sale is re-measured.
 - The transaction is verified through the buyer.
 - The interior of each sale is viewed to insure data quality.

An in-depth knowledge of the transactions provides a incestuous knowledge of the market

- Why people are buying
- What they are purchasing
- What they are willing to pay for upgrades or modernization
- Where they are moving in from
- How informed they were in their purchases
- What they are planning on doing to the property in the near future to modify it
- What they have done to the home since purchasing it

A side benefit of field research

- It puts a face and a presence on the assessing office
- Indirectly supports the collecting function by keeping discussions about values with the taxpayer to a minimum
- Gives assistance to the taxpayer in helping them understand their values better when concerns arise

This process only works well with small and medium sized communities

- Where the staffing and the budget is large enough to support in depth research
- Larger communities lack the manpower to adequately cover the sales that occur
- But even larger communities can benefit from directly verifying more questionable or problematic transactions

A sunset over a body of water. The sun is low on the horizon, casting a bright orange glow. The sky is filled with dark, dramatic clouds, some of which are illuminated from below, giving them a reddish-pink hue. The water in the foreground is dark and calm, reflecting the colors of the sky. In the distance, a small boat is visible on the right side of the horizon.

Observations from a valuation viewpoint
The Market and what appears to be happening

The “Chicken Little” mentality



Recent Headline in the Real Estate
section of the Boston Globe

**“Economy gains as housing
values **spiral** downward”**

New York Times: May 31, 2011

We all tend to take what the media says at face value and assume that it translates directly and universally into the market.

WE ALL TEND TO TAKE UNSUPPORTED STATEMENTS OR COMPARISONS FROM THE MEDIA AS SACROSANCT

“The desire to own your own home long is a bedrock of the American Dream is fast becoming a casualty of the worst housing downturn since the Great Depression.”

New York Times: May 31, 2011

We seem to assume that what is occurring today will continue on into the future.

After being involved with the real estate market since 1981 and having seen two boom cycles and two busts -

If I can pass anything on with respect to the market, it is



The Principle of CHANGE



Change is often subtle

Is ongoing and pervasive





And can bring about changes that are
truly
remarkable

And so change is ongoing

- In fact it never stopped
 - In October of 2007 the market crashed
 - We became aware of the savings and loan crises
 - Inventories of real estate increased
 - Foreclosures became more common
 - Demand dried up
 - And eventually values started declining
- Almost at the same time the forces of the market came into play that eventually would bring us out of decline

As the Market “Spirals Downward” things occur that help it to correct

- Inventories increase, causing a glut of supply
- A glut of inventory causes marketing times to increase
- The increase in marketing time causes sellers to become more proactive and lower prices
- A lowering in prices causes more interest on the part of buyers
- As the interest in the market is revitalized, it cause inventories to be absorbed and values to increase

TODAY

- In Belmont, at least
 - The residential market is buoyant
 - Values are trending up
 - We are experiencing bidding wars on certain types of homes in more desirable parts of town
 - These are the beginning signs that the market may be recovering
 - And the move from a buyer's market back to a seller's market

What differentiates a seller's market from a buyer's market

- In a seller's market, the seller tends to control the transaction.
 - Occurs when inventories are low and demand is high.
 - In a seller's market, the seller controls the expectations on value and the value of certain items.
 - Items that are appealing increase in value:
 - New kitchens
 - Swimming pools
 - Etc.
 - Items that are unappealing, like a wet basement, poor proximity, etc., do not impact value as much.

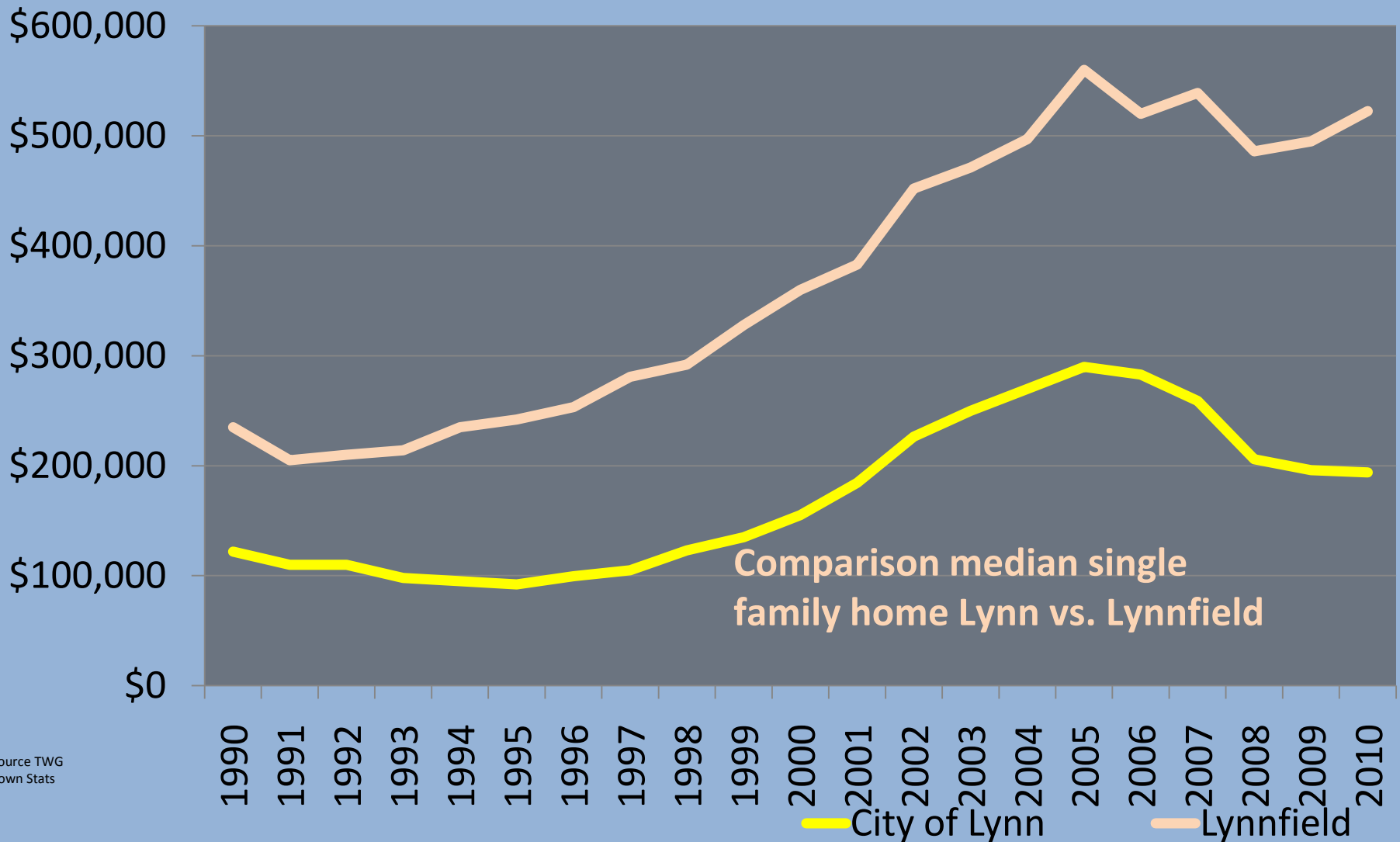
Buyer's market

- Usually occurs when inventories are high and demand is low.
 - The buyer tends to be more in control of the expectations on value.
 - Items that are appealing: a new kitchen and baths, receive a lower premium or no premium at all.
 - Items that are unappealing: a busy street, a dated kitchen or bath, are treated more severely.

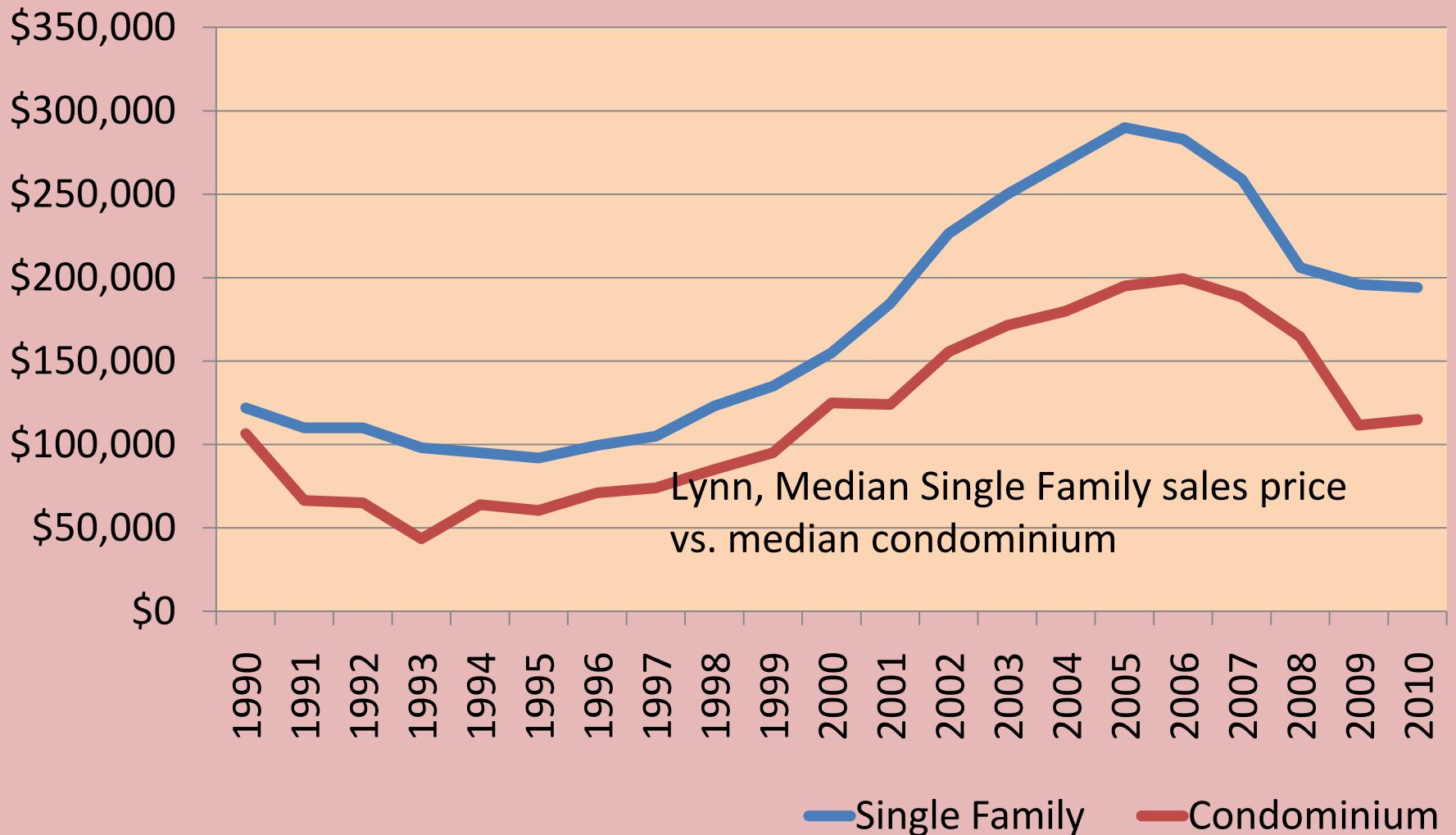
But a changing market unlike the tide
does not raise and lower all vessels
equally



The market in Lynnfield is far different than the market in Lynn



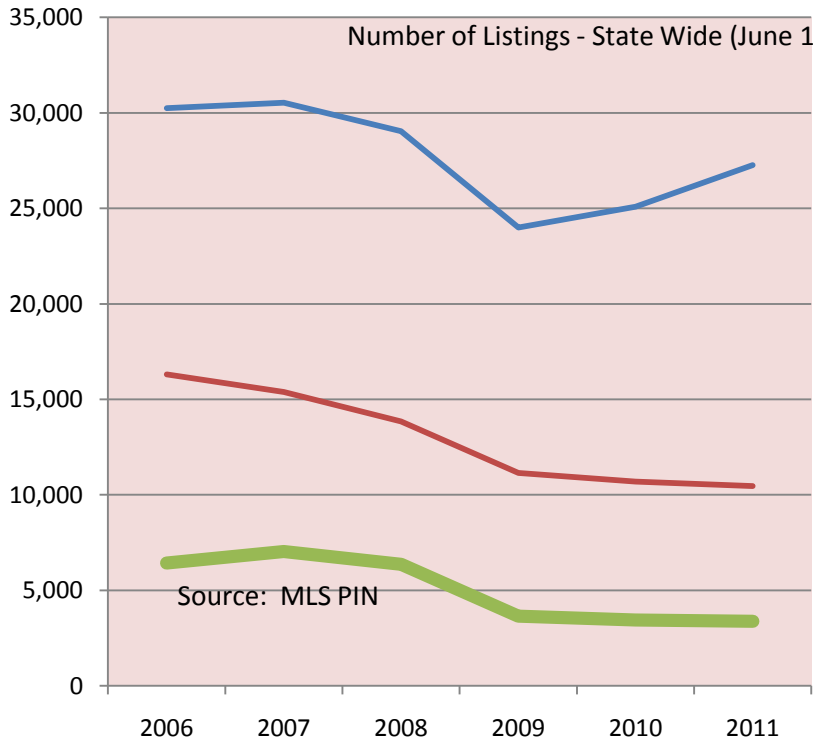
Even within the same community, different property types act differently



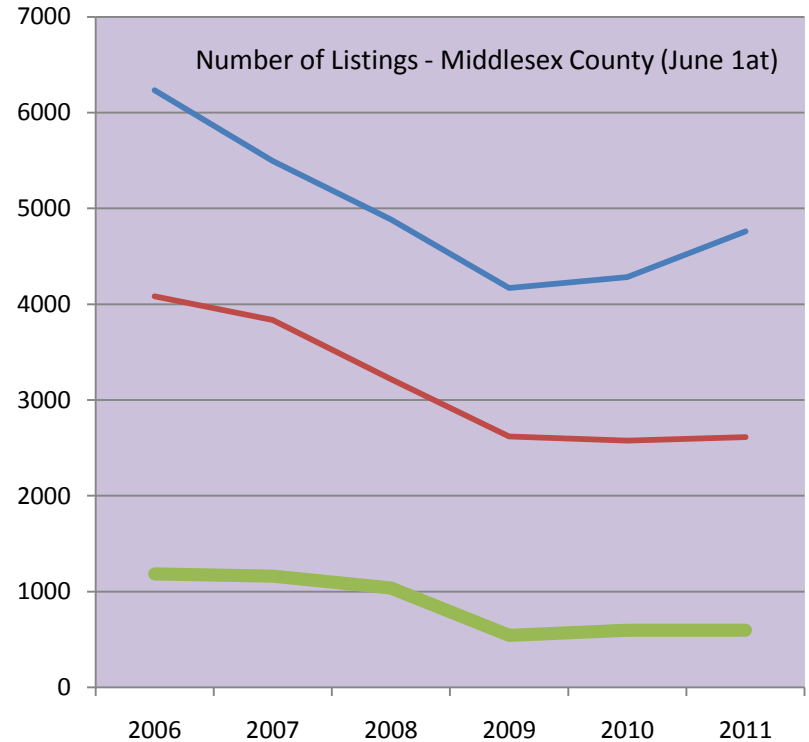
What seems to be controlling the market today

- The supply of on-the-market properties appears to be declining
- Demand is increasing and helping to absorb the excess of inventory in some local markets like Belmont and Lynnfield
- State wide trends are much less convincing, particularly for 2011

Listings

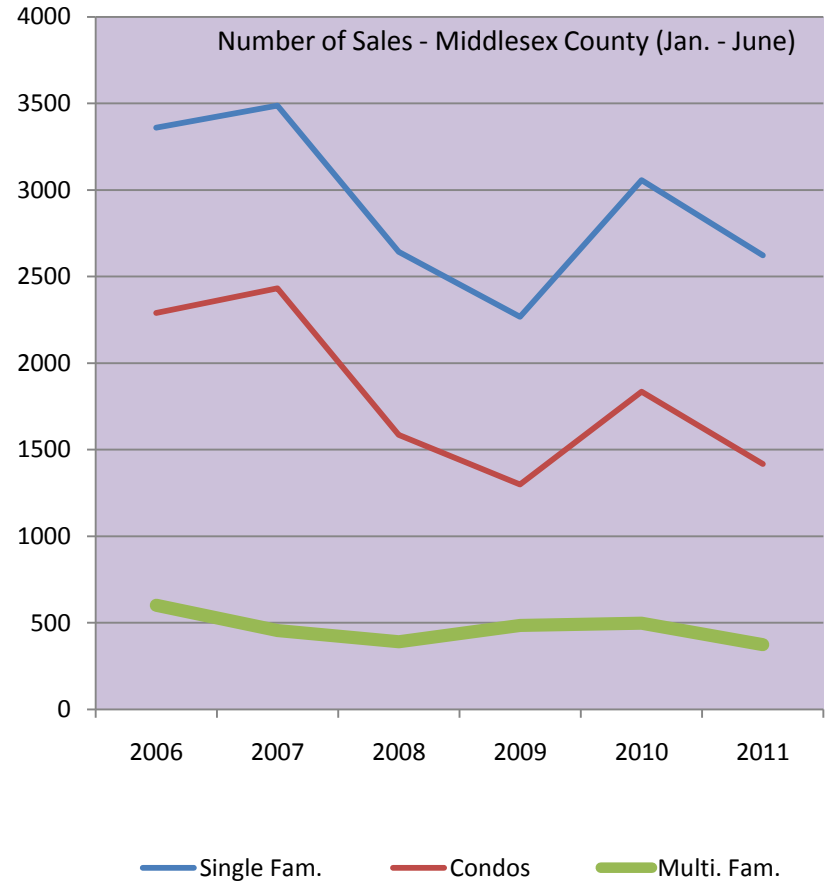
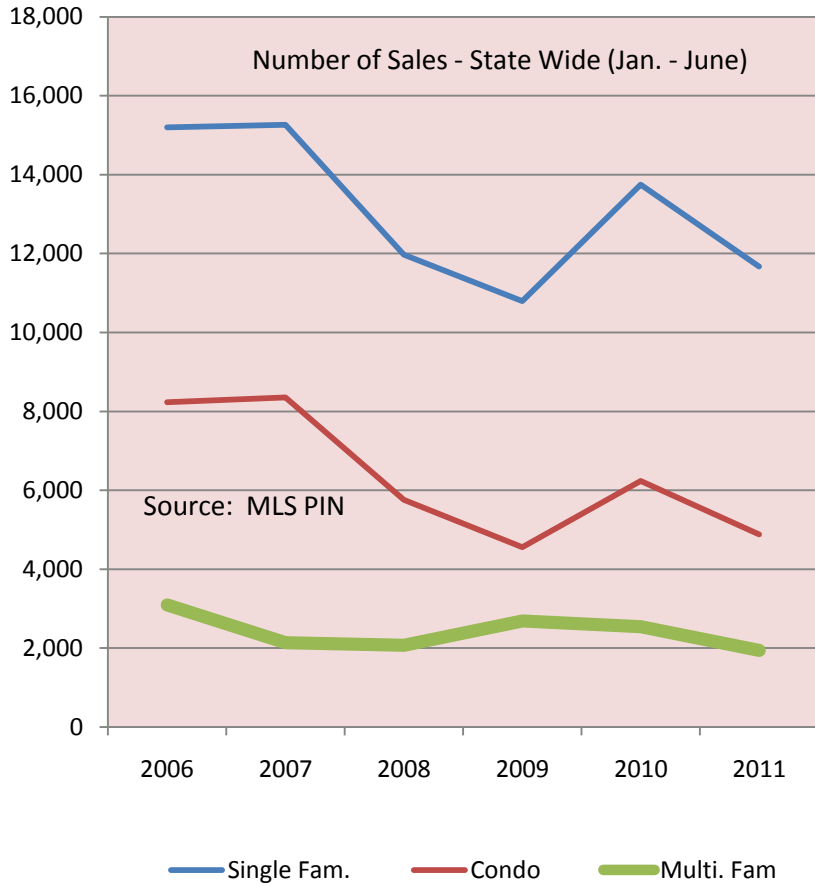


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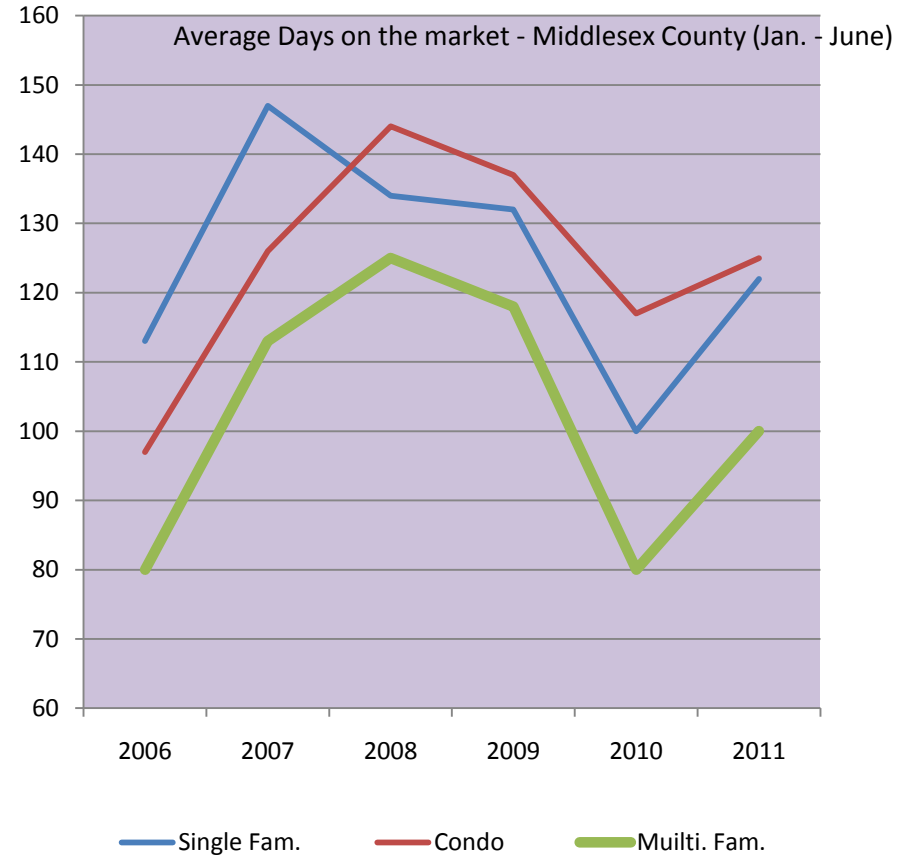
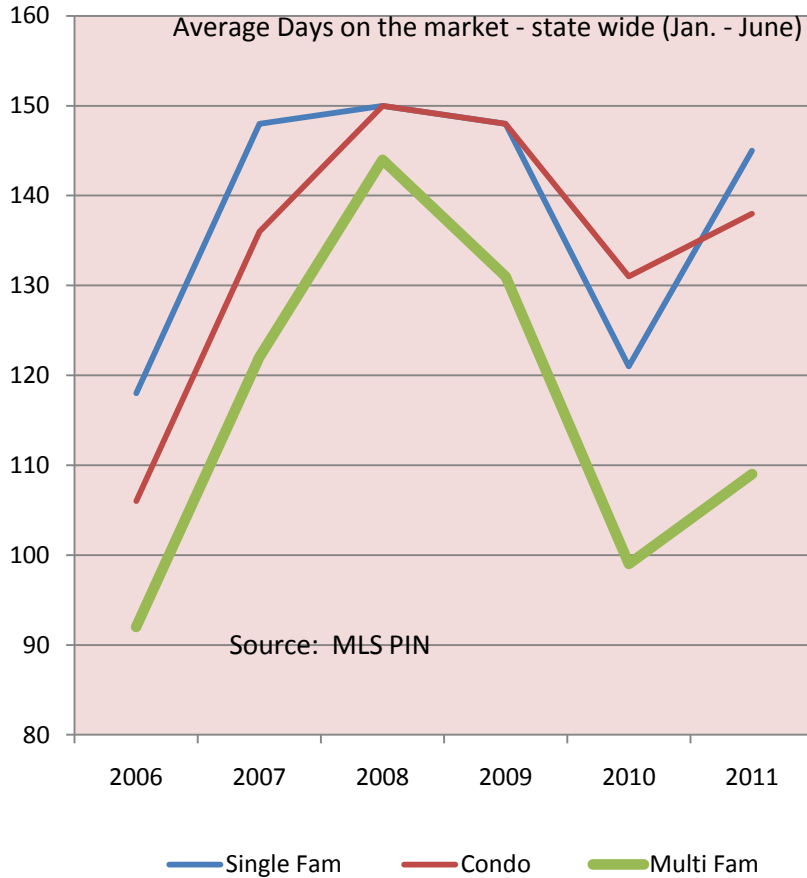


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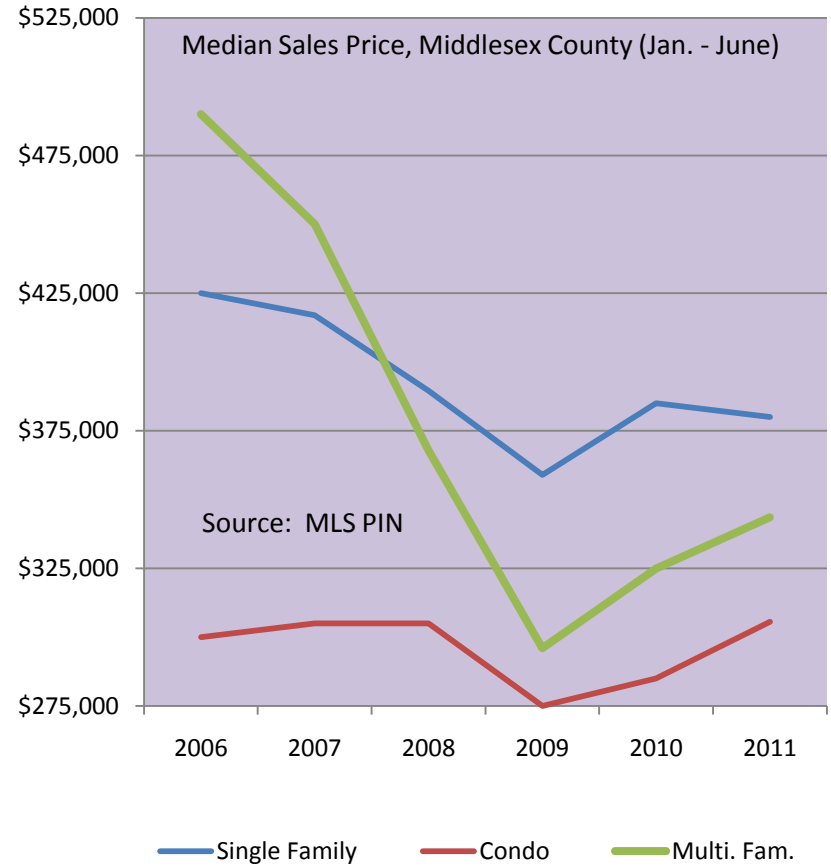
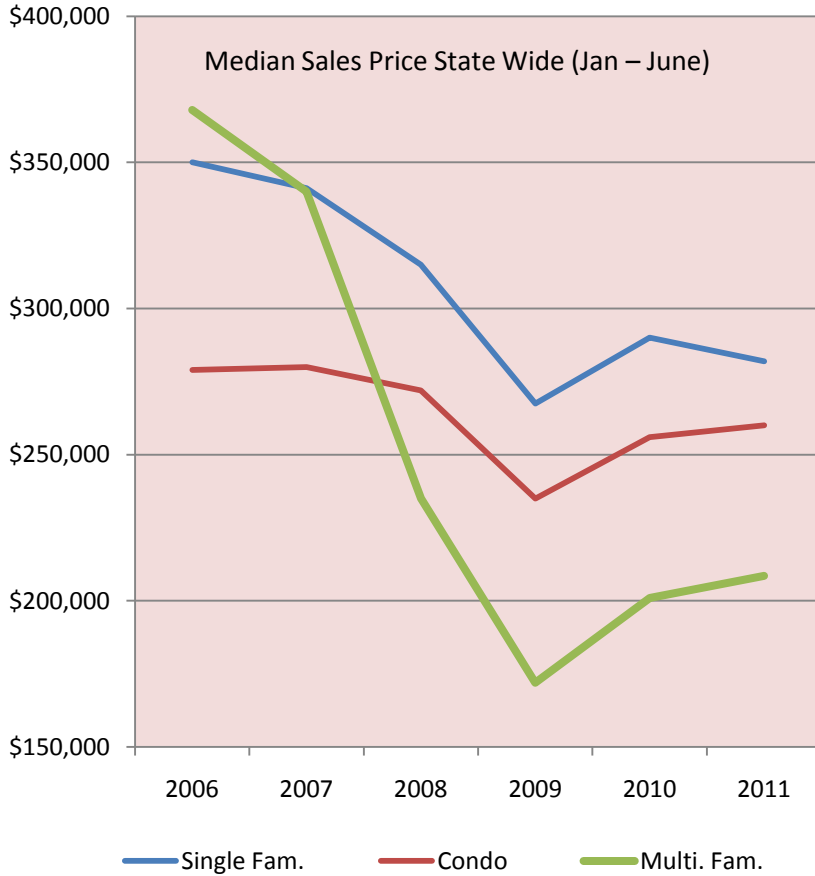
Sales



Days on the Market



Median Sales Price



Markets going into the future

- Any trends are subject to change
 - if interest rates start to increase
 - if the rate of inflation starts trending upwards
 - Anything that pulls the buyer out of the market, stanches demand and allows marketing times or supplies to increase.
 - Will effect the market, causing inventories to rise, demand to decline and the buyer to be more in control.

In Closing

- I have enjoyed my relationship with the Collectors/Treasurers Association. It has, I believe, given me more insight into the financial division and how it works.
- I want to thank Liz Craveiro of the City of Somerville for introducing me to this organization when we worked together in North Reading.
- I also want to acknowledge my own Treasurer/Collector Floyd Carman.

We have a strong working relationship

- Based on Mutual Respect
 - Worked across the hall for six years
 - We have sought each other's counsel repeatedly
 - We both understand where one job ends and the other begins
 - We are both willing to supplement each other

How it works

- Communication
 - We both communicate directly
 - Use e-mails minimally
- Give and take
 - Understanding limitations
 - I work for a Board – and report to them
 - Floyd is willing to meet with the Board to explain his position.
 - Beyond that, we both have needs and expectations that we work together on.
 - Excise commitment and abatements
 - Reporting regarding bond ratings

How it works - continued

- Ownership of the problem
 - Responsibility for what happens in our own departments
 - Ownership of calls and situations
 - If we can't answer a question, we make sure that we pass it to someone who can
 - Informing the department who is on the phone and their concerns
- Having a common (understood) goal
 - We are all in this together
 - We are ultimately responsible for what happens in our own department

How this works, finally

- Having a similar approach to the client (taxpayer)
 - Ownership of the situation and solution
 - Helping the client to understand the process
 - Teaching and understanding

We are all in this together



At times we just have different perspectives



View of Boston from Spectacle Island