

Determining Forecasting Adjustment

What is forecasting? Why is it necessary?

FORECASTING is the process of analyzing historical trends and current factors as a basis for **anticipating market trends**. A forecasting adjustment is then applied to reflect any impact these trends will have on the subject property's marketing time and sales price. Forecasting adjustment should be a **consistent** (same) lump sum adjustment to all comparable sales utilized. Forecasting is based on **client specific guidelines** and general practice is to use **Reasonable Market Time Not to Exceed a 120 day marketing period**; however it is not uncommon for client policies to require the appraiser to forecast based on 60, 90 or 180 day marketing periods. In other words, the appraiser must consider the current normal marketing time and if it is higher than the client requested marketing period, the appraiser must consider a forecasting adjustment that would be necessary to achieve a sale within the client specific guideline. The appraiser's estimate of normal marketing time should reflect initial realistic pricing.

Data that should always be considered: Total listings in market, Average days on market, list to sales price ratios, absorption rates, inventory levels, foreclosure and REO activity, forecasted price trends and general mood of the market.

For example

Based on an historical analysis, values have been declining 1% per month for the last year and are forecasted to continue at the same rate for the next 6 months. Client marketing time is 120 days and the average DOM in the area is 200 days. Based on the 3 sales used as comparables (Sale #1: \$625,000, Sale #2: \$810,000 and Sale #3: \$556,000), it is determined the Anticipated Sales Price prior to forecasting is \$590,000. Suggested list price of the home is \$600,000. The average list to sales price ratio in the area is 90.2%.

The first step to assess the need of a forecasting adjustment is to **compare the current average DOM for the market to the client requested marketing period**. In this case, because the average DOM is 200 days and is greater than the client requested marketing time of 120 days, a forecasting adjustment is necessary. The appraiser has to forecast out for the normal marketing time of 200 days or approximately 7 months then consider a price reduction necessary to achieve a sale in the client guideline of 120 days or an additional 3 months. Two methods to calculate a supportable forecasting adjustment are:

Method 1 - based on the expected rate of market decline:

1% x 7 months = 7% + 3% (to reduce to 120 days) = 10% forecasting adjustment.

\$590,000 ASP prior to forecasting x -10% reduction = -\$59,000 forecasting adjustment that would be the forecasting adjustment applied to all sales.

Method 2 - based on the list to sales price ratio:

Suggested list price for the subject x list to sales price ratio = Forecasted ASP

(Difference between the figures would be your forecasting adjustment)

\$600,000 suggested list price x 90.2% average list to sales price ratio = \$541,000 forecasted ASP

\$600,000 list price - \$541,000 forecasted ASP = -\$59,000 forecasting adjustment.

Per the **ERC Relocation Appraisal Guide**, the Forecasting adjustment may be positive to reflect an appreciating market or negative for a depreciating market. A \$0 adjustment would be reflective of a stable market where homes are selling within 120 days (or within a time frame directed by the client). Regardless of market conditions, the relocation appraisal **requires** an analysis to determine the dollar adjustment (if any) for this line item.

SALES COMPARISON ANALYSIS	Gross Living Area	777 sq. ft.	715 sq. ft.	+31,000	875 sq. ft.	-49,000	700 sq. ft.	+38,500
	Basement Area	N/A	N/A		N/A		N/A	
	Basement Finish	N/A	N/A		N/A		N/A	
	Functional Utility	Average	Average		Average		Average	
	Heating/Cooling	Forced Air/Unit	Forced Air/Unit		Forced Air/Unit		Forced Air/CA	
	Car Storage	N/A	N/A		N/A		N/A	
	Fireplace(s)	None	None		None		None	
	Significant Features		Opn City View	-31,250	High End finishes an apps	-34,950	Opn City View	-30,500
					Open vu. L.L.			
		CC: 895	CC: 850		CC: 617	-11,700	CC: 1,034	+6,900
Forecasting	-10%		-59,000		-59,000		-59,000	
Net Adj. (Total)			\$ -95,700		\$ -190,450		\$ -64,433	
Adjusted Sales Price			\$ 529,292		\$ 508,550		\$ 545,567	