

## When re-listing makes numbers lie.

Friday, 06 October 2006

If you plan to only read one article I have ever written

**MAKE IT THIS ONE!**

If you read my last article on the phenomenon known as "re-listing", you know that it can cause some problems relating to interpreting real estate data.

After finishing that article, I read through it again and tried picturing all the possible problems caused by eliminating "re-listing". Particularly at this time. Don't get me wrong, I am 100% against the practice of re-listing. It is a bad thing. The focus of this article is not whether or not re-listing is bad, but what the effect of stopping the practice at this time is likely to be.

I called some respected peers in the industry and discussed my observations and concerns and the consensus seemed to be that if the public is not aware of how they have been lied to up until now, the statistics that are likely to come out over the next few months could cause a level of panic and concern that is unwarranted.

The first step, in a case like this is to know the truth, so here we go. Many of the numbers you have heard in the past about how long it takes to sell a home and how close to asking price a home has sold, have been lies.

You see, when you hear data about real estate in the newspapers, magazines or talk shows you need to understand that they all get their information from the same basic sources. That source is the multiple listing service or MLS. Scattered all across the country are multiple MLS systems. Some MLS systems only service one county, while others service multiple counties. So when real estate data is compiled, they get the data from the various MLS systems and analyze it to come up with how long it takes to sell a home, the average home price, etc.

In my case, I belong to the REInfolink MLS system. This system covers the counties of Santa Clara, Monterey, San Benito and Santa Cruz. That covers some of the hottest real estate markets in all of California. Real estate agents use the MLS system to enter homes they have for sale and to search for homes to meet the needs of buyers. They also input sales information when a home is sold. So from the system, you can see just about all the data relating to a home.

Now each MLS system has different rules, policies and guidelines for how their system can be used. In the case of my system - covering the area from just below San Francisco all the way down past Monterey, the rules are being changed regarding a practice called "re-listing". I won't get into what that is here, you can check my previous article on the subject. What we are focusing on here, is the potential problem this action is going to cause.

Here is a rundown of the main things that are likely to cause confusion and potentially, panic. These are the things that will be happening in the coming months as this change in the re-listing policy filters down.

- Days On Market Suddenly Increases: As discussed in my other article, re-listing causes the listing date to be reset. So if you first list a home on say Feb 1, 2006 you could relist it on Oct. 1, 2006 and if you look up that home on the MLS on October 6, 2006 the MLS system will tell you that the home has been on the market for 5 days. Further, if that home sells on October 30, 2006, when the sales numbers for that month are reported, it will show a home selling in just 30 days. There is no tracking of the fact that the home has actually been on the market for more than 8 months. The system as it exists now UNDER REPORTS the actual time on market for these homes that have been re-listed. However, re-listing is about to be more or less stopped. Under the new rule, a home would have to be taken off the market for 30 days before it could be listed again by the same brokerage. Since agents and brokers (not to mention sellers) are going to be unwilling to do this, re-listing is likely to stop almost completely. The end result of this will be that when the numbers get reported to those that analyze them, they are going to see homes staying on the market longer than before. Since what has changed is the rule, not what is really happening with the homes, these analysts are going to believe that it is suddenly taking longer to sell a home in our area. But remember THE ONLY THING THAT HAS CHANGED IS THAT THE NUMBERS ARE JUST CORRECTLY REFLECTING WHAT HAS BEEN THE TRUTH ALL ALONG. So with each passing month after this change in the rules has occurred, pundits are going to get louder and louder as they declare that these homes are just not selling - which is true, but has been the case all along. The fact was just hidden by re-listing.

- New Listings per month will drop. Another result of this change in the rules is that the number of homes showing as listed per month will drop. Why? Because when a home was relisted, it showed up in the system as a brand new listing. It got reported as a new listing and the analysts use that information to determine market activity. Analysts will likely interpret this as a loss of confidence in the market on the part of sellers. They see less listings happening, that must mean that fewer people feel like this is the right time to sell their home... right? Not really.

- Percent of asking price paid by buyers will drop. Another number many analysts look at is how much of the asking price a seller gets for their home. In doing this, they look at the Original List Price and compare it to the Sales Price. A very common practice is to "re-list" your home when you lower the price. The result is that those reductions in price are not linked with the house since a whole new listing has been created.

- A drop in cancelled and withdrawn homes. In many cases, before relisting, the agent will cancel or withdraw the listing before re-listing it. So right now, the data might mislead onlookers to conclude that many people are reconsidering their desire to sell. With the new system, cancelled and withdrawn statistics will be more likely to correctly indicate that a home was actually taken off the market, rather than just re-listed that very same day.

Now, to illustrate these key ideas, lets take a home on Easy Street and follow it through this process under the old rule and the new rule to see what the net difference is at the end of the process:

123 Easy Street

With re-listing  
without re-listing

- Jan 1, 2006 - Home Listed for \$1,000,000.00

- March 1, 2006 - Home re-listed for \$800,000.00 - System now sees old listing for \$1,000,000.00 cancelled and records new listing for 123 Easy Street. On March 2,2006, this home will appear to have been on the market for 1 day and have always had an asking price of \$800,000.00

- May 1, 2006 - Home re-listed for \$600,000.00. System now sees cancelled listing for \$800,000.00 and a new listing for \$600,000.00. On a home search done on May 2, 2006, the home will show up as being on the market for 1 day with an asking price of \$600,000.00 with no drops in price.

- June 1, 2006 - Home goes into escrow with purchase price of \$590,000.00. Close of escrow date to be July 1, 2006

- Jan. 1, 2006 - Home Listed for \$1,000,000.00

- March 1, 2006 - Home price dropped to \$800,000.00. On March 2, 2006, this home will appear to have been on the market for 61 days and will show that the price was dropped from \$1,000,000.00 to \$800,000.00

- May 1, 2006 - Price dropped to\$600,000.00. If search done on May 2, 2006, home will show up has having been on the market for 122 days with 2 drops in price from the original asking price.

- June 1, 2006 - Home goes into escrow with purchase price of \$590,000.00. Close of escrow date to be July 1, 2006

Once escrow is closed, the following data will be reported on this home:

Asking Price: \$600,000.00

Asking Price Dropped By: \$0

Sales Price: \$590,000.00

% of Asking Price: 98.3%

Days On Market: 60 Days

Once escrow has closed, the following data will be reported on this home:

Asking Price:\$1,000,000.00

Asking Price Dropped By: \$400,000.00

Sales Price:\$590,000.00

% of Asking Price: 59%

Days On Market: 180 Days

Now keep in mind that the ONLY real difference between these two columns is the policy of re-listing. That is it.

But take a look at the numbers that come out of the transaction. These are the numbers that analysts use to examine the health of the market! The difference is quite amazing and can leave a person with two completely different perceptions of what is going on with the market. In one case, the market seems healthy and moving right along. In the other it looks like the market is weak and homes are not moving. The example here is potentially an entirely realistic one. In fact, I could have used a real life example where the difference is even more marked. For instance, in my area, a home has actually dropped in price by over \$1 Million and has been on the market nearly a year - but check the MLS today and it shows it as on the market for 8 days with no price drops.

So this is likely what your going to see in the coming months. At least in the area serviced by my MLS provider, your going to see numbers more like the column on the right in future months. But the numbers will be that way because of the way the numbers are generated, rather than any real change in the market. Also keep in mind, that the area covered by my MLS tracks BILLIONS of dollars in real estate transactions. That is enough to seriously nudge statewide numbers.

The reason I am spending so much time on this and making an effort to bring home the point is that if we are not aware of this and prepare for it, the analysts are going to have everyone believing we are on the edge of a catastrophe and the belief that they are right will bring about the catastrophe they predict.

Like the man says, "Don't Panic".

FOLLOW UP (Oct. 12, 2006): I want to thank all of you that have contacted me via email and phone regarding this article. I had no idea that a discussion that pretty much revolves around statistics would get so much attention! In response to some of you, I have clarified my position on re-listing in general at the intro of this article and made a few edits for the sake of clarity. Thanks again for taking the time to consider what I have to say here.

UPDATE!!

For those interested in the REInfolink policy on re-listings, check out this article from them. One very good piece of information from this article is that the new policy is going to carry over the days on market date to new listings in cases where the home has not been off the market for at least 30 days! This is excellent news for those of us who have always been concerned about the quality of the data that comes out of our MLS system.