

Real Estate Market Update 2010 – A New Normal

Predicting Property Sale Prices for Ames, Iowa

Assessing Property Values in a Tumultuous Market

- approx. 2006 - Housing bubble peak
- July 2007 - Bear Stearns hedge funds implode
- End of 2007 - Over a hundred mortgage lenders bankrupt
- 2008-2009 - Great Recession, nearly 9 million jobs lost

How can we be confident in future property sale prices?

Predictive Modeling – Methodology

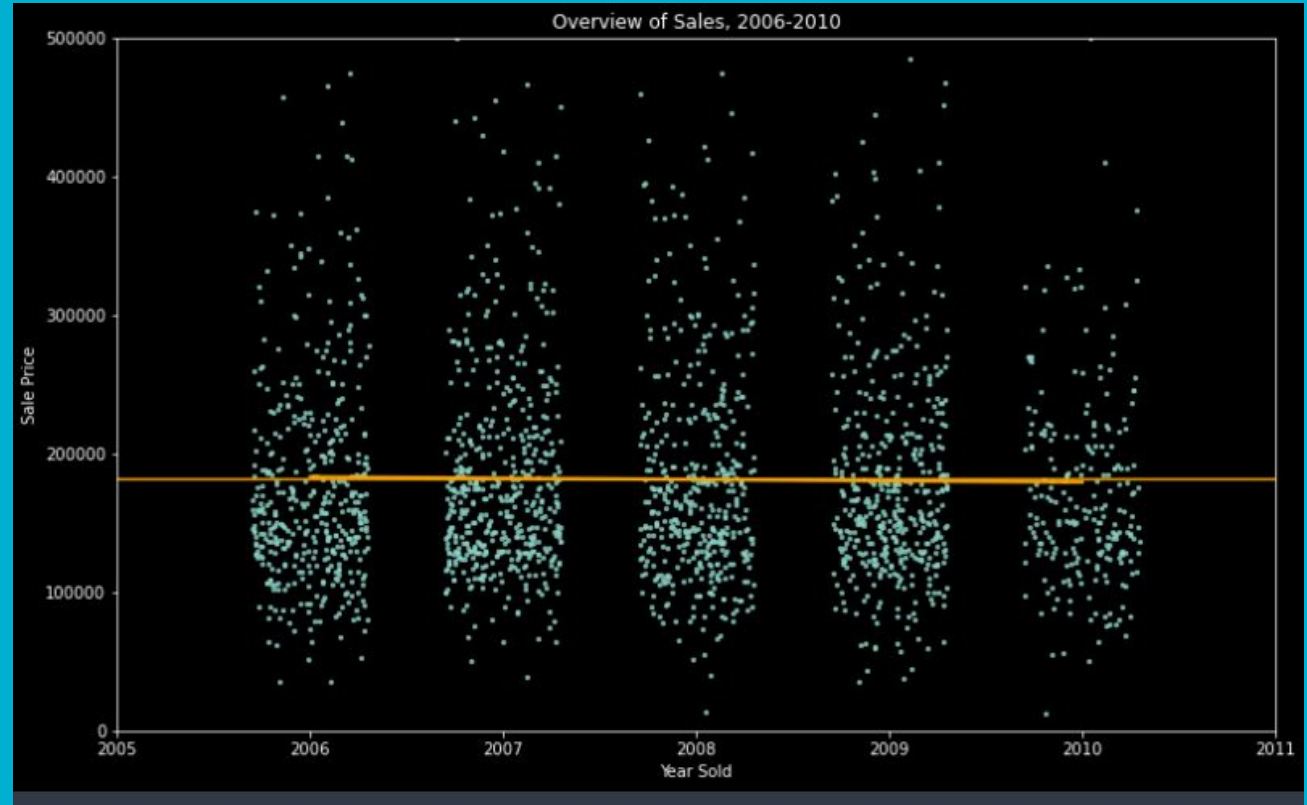
- Data from 2006-2010
- “Kitchen Sink”
 - We don’t know that past indicators of home value still hold true
 - Many of the effects of market panic may occur on a subconscious level for buyers
 - Buyers may not know what value they are placing on home features
 - Value judgements are certainly affected by current climate.
 - ‘White Box’ model can be examined and picked apart for most relevant features after the fact.
- Initial EDA narrowing from 81 total features to 35
- Simple Linear Regression Model
 - First pass - used as baseline.

General Findings

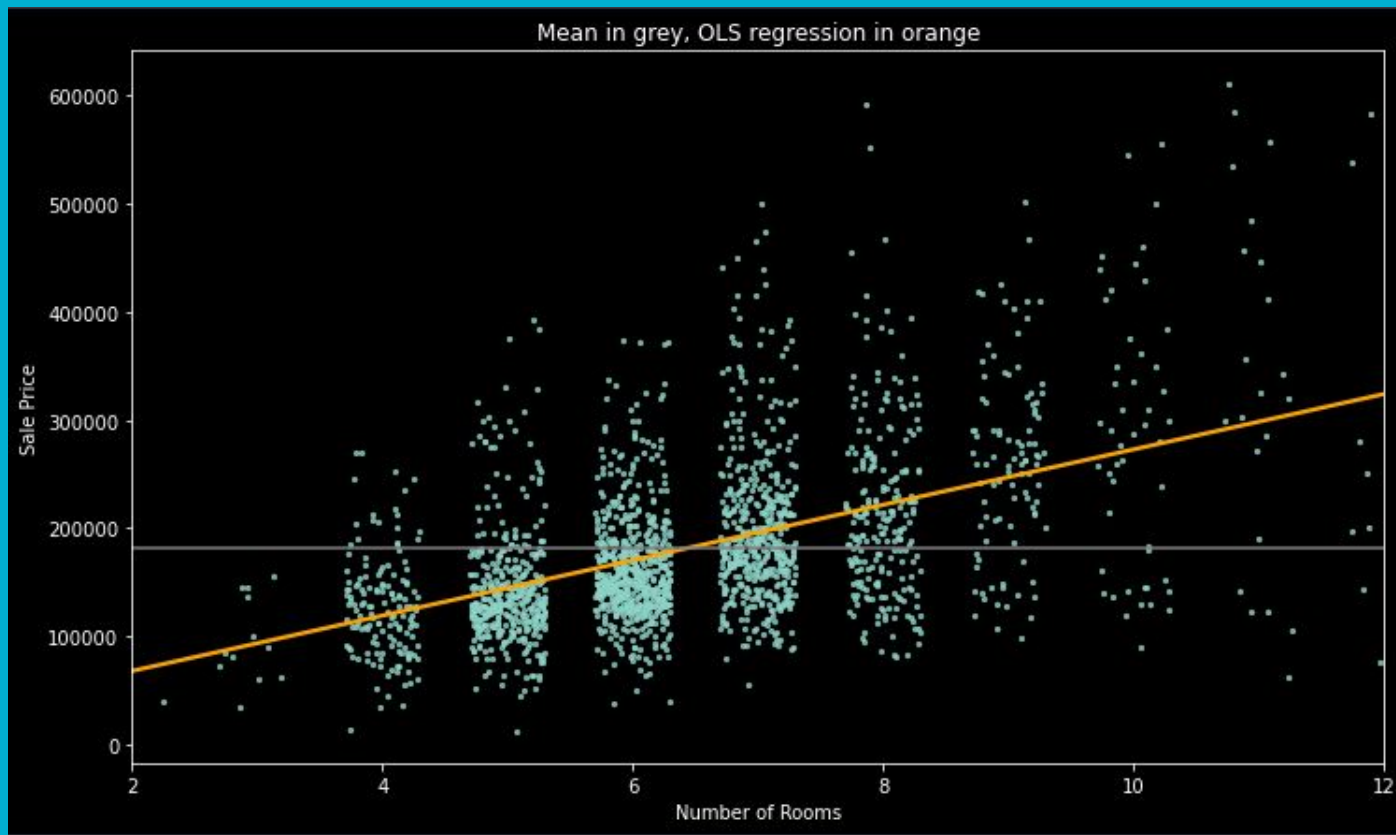
Contract sales (15% down, regular terms)	• \$43,731
Low down payment, low interest contract sales	• \$30,670
2.5 story finished buildings	• \$62,690
Hard material exteriors: (Cement Board, Brick Face, Stone)	• \$42,697, \$20,254, \$19,291
Each car the garage holds	• \$6,113.81
Neighborhood: Green Hill	• \$95,718
Age of Building (per year)	• \$77.20
Full Bath / Half Bath (each)	• \$6175 / \$5670
Kitchen Quality (scale of 0-4)	• \$11,171
Per Room	• \$837

Prices:
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not that
different;

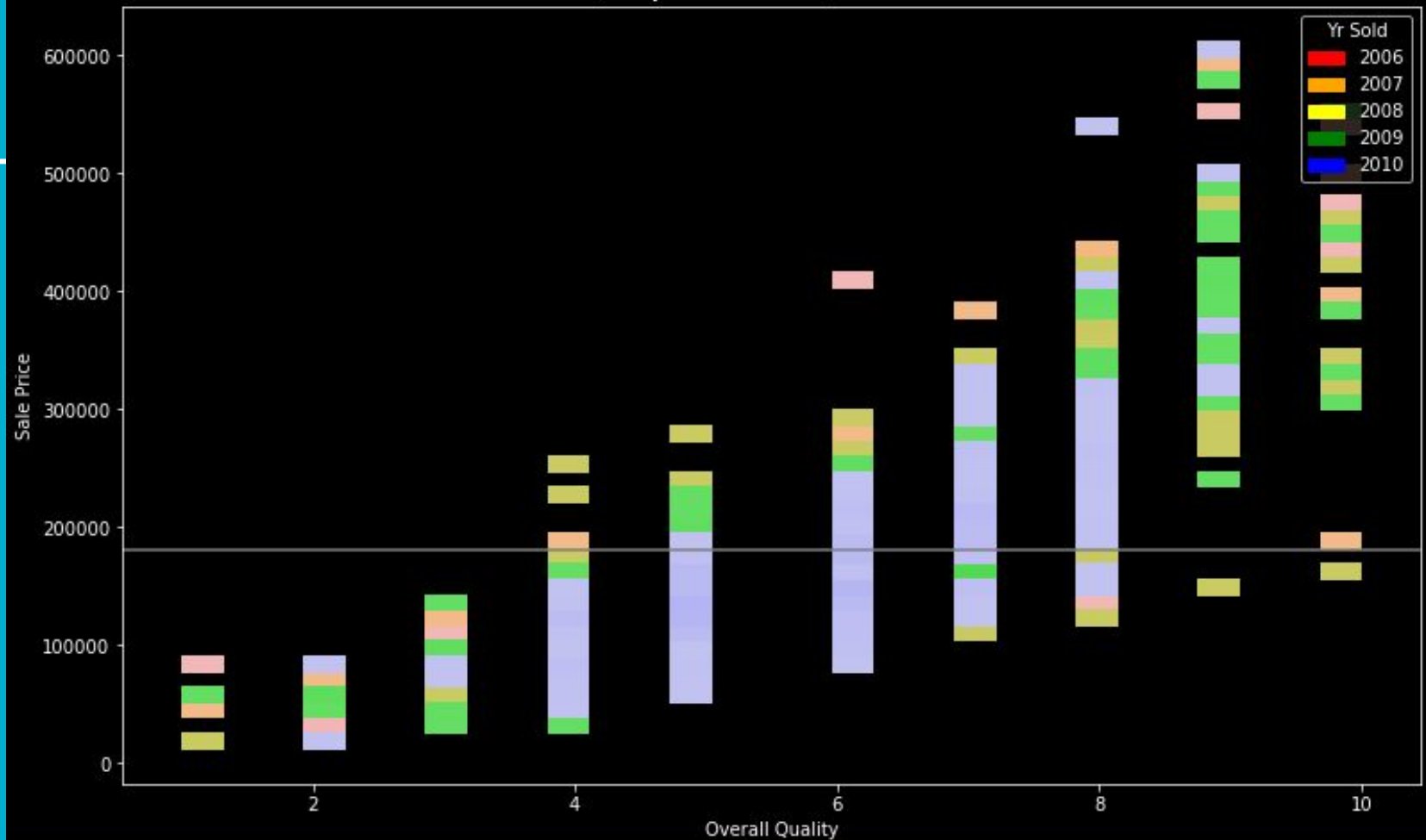
Total Sales:
Much fewer



Some value markers remain constant



Quality of Homes Sold, 2006-2010



Recommendations

- Acquire properties in less desirable neighborhoods as long term investments.
- Focus on contract sales and new construction sales. Cash sales are expected to yield lower final prices.
- Finished, larger dwellings add a great deal of value. Investment in a little bit of work and furnishing can yield considerable profits on the final sale.
- **Quality, Not Quantity**