

The End of New Construction?

By Paul R. Bynum

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Well, not really. New construction is continuing. ***But are the listings for new construction accurate in the MLS database?***

Overview:

*This report shows the difficulty of **defining** new construction. It outlines the approach **Mount Data** takes in compiling New Construction data and why this is no longer tenable. It demonstrates how **inconsistent data entries** compound the problem.*

*The report asks the questions: is there any meaning in the New Construction numbers as presented in the database? Should we even have such a category? The **Arkansas Regional Multiple Listing Service** gives a proposed solution. **Mount Data** discusses the question: "What changes do we need for useful data?"*

Definition Problems:

Here are some definitions various real estate brokers and agents may give for **New Construction**:

1. Only homes coded as "**New Cons**" in the "**Age Desc Field**".
2. A home built within the last _____ (fill in your favorite number) years
3. Numbers 1 and/or 2 and **currently vacant**
4. Numbers 1 and/or 2 and **never lived in**.
5. Numbers 1 and/or 2 and **never previously owned**
6. Whatever the agent or broker thinks is right.

Definition #1 is simple. We assume it is "new construction" **if** and **only if** coded that way in the "Age Desc" field of the database.

Problems: *New Construction listings not coded as such and not counted.
Agreement over occupancy and year built factors.*

Definition #2 is also simple. Call everything built within the last three (or two, or one...) years "New Construction". The distinction is by **physical age only** having nothing to do with occupancy or database coding.

Problems: *Lack of consensus of oldest year. Disagreement over occupancy.*

Definition #3. Adds vacancy as a requirement.

Problems: *All of the problems listed under #1 and #2 plus: what if the home was previously lived in, is now vacant, yet still falls in the year built requirement for New Construction?*

Definition #4. Adds ***continuous vacancy from year built*** as a requirement.

Problems: *Suppose a home built in 2003 is vacant ever since. Would this count? Is there a time when **physical deterioration** becomes significant?*

Definition #5. Makes occupancy O.K. as long as they are ***renters***.

Problems: *Many brokers and agents would not see why a distinction is made between owners and renters.*

Definition #6. Based on what ***feels right*** to the broker or agent.

Problems: *Self-serving. Lack of accepted standard.*

Compiling Methods

Mount Data tracks New Construction data based on definitions #2 and #4. The program uses:

1. Only homes listed in the last 3 years.
2. No previous listings since year built.
3. Built in the last 5 years. (Overlap needed for 3 complete years of listings).

This worked well through 2006. Homes sold quickly and rarely occupied before sale.

The downturn in the market in 2007 led to cash flow problems for many builders of new construction homes. ***Renters occupy many of these otherwise "new construction" homes.***

Also, buyers buy homes directly from builders without the use of the MLS system. If these homes later sell, due to foreclosure or other reasons, they ***appear as first time sales*** in the MLS system. If these homes are built and listed after 2006 and are never listed before, the **Mount Data** program will incorrectly code them as "new construction". All of this can lead to ***significant errors*** in compiling the data.

Database Entry Problems

A further problem is a *lack of standardization* of the database itself. The following conditions exist in the database:

1. The **“Age Description”** field is not required by ARMLS. This means there is a possibility of listing a New Construction home without coding the field as "New Cons" and leaving it blank. A blank field *might* mean "new construction" or it *might* mean an "existing" home.
2. Certain choices in the **“Showing Instructions”** field are not required. This allows an agent to declare *any* listing as “occupied”, “vacant” or not to declare either of these, thus *leaving the status unknown*.
3. The "Year Built" field needs checking for accuracy. New Construction listings show up with *blank* “Year Built” fields, or with *garbled* data. (See examples below). Blank or garbled data means inaccurate results.

Exhibits

The database used for the exhibits is a download of all “current listings” for May 3, 2009 at 8:30 am. It consists of both Benton and Washington counties. The following table has homes *built in 2009* and shows the situation with the MLS database. (See all exhibits at the end of this report).

Currents Built 2009				
Age Desc Category Is:	Listing Shows Home As:			Total
	Vacant	Occupied	Unknown	
New Cons	91	0	55	146
Left Blank	18	1	7	26

There are a total of 172 current listings of homes built to this date in 2009. Since they were finished within the last 4-months, we assume that *all* of these homes are “New Construction”. Yet, only 146 homes show this coding. Of these, 91 are vacant, but 55 are of unknown status.

There are 26 homes built in 2009 in which the **“Age Description”** field is blank. Of these 18 are vacant, 1 is occupied and 7 are of unknown status. Furthermore, reading the MLS reports and looking at the photos of these 26 homes shows they are all, with the exception of the one occupied, *New Construction*.

Applying our six definitions for *New Construction* homes built in 2009 gives the following results:

- Definition #1: 146
- Definition #2: 172
- Definition #3: 91 or 109 depending on choice of first two definitions. If we assume all unknowns are really vacant, then 146 or 171.
- Definition #4: Cannot determine
- Definition #5: Cannot determine
- Definition #6: Whatever you say!

Two things to note:

Without some standard, the results are *without significance* and *useless* for any accurate determination of a “New Construction” database.

This only looks at homes built in 2009. The situation gets more complicated as previous years are included. Here is the table for 2008:

Currents Built 2008				
<i>Listing Shows Home As:</i>				
<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	86	7	90	183
Left Blank	121	19	16	156

The problem here is to determine how many of the 156 homes built in 2008 with the “*Age Desc*” field left blank are *existing homes* and how many are *New Construction*. Even though *most* of them *may* be, (and probably are for 2008), *New Construction*, some may be current owners selling their homes. It might be that renters occupy many of them. Who knows exactly? We can’t count on the “Showing Instructions” field for help as it does not clarify the unknown entries. There are actually 2 current listings *built in 2008* coded with “*unknown*” in the *Age Description* field!

What happens with the addition of *more* previous years? *There is more likelihood of the “left blank” field to include renters, owners, and existing homes and no accurate way of distinguishing them from New Construction.*

Need For Distinction

Do we even *need* to distinguish *New Construction* from *Existing* homes? I believe we do for several reasons:

1. The New Construction market represents the growth of a community and has rippling effects throughout its economy. ***An accurate picture of a local economy demands accurate tracking of New Construction homes.***
2. New Construction buyers have ***different expectations*** in home choices. They often add amenities. Most buyers expect a "new home" to be fresh and un-lived in. ***Buyers need an accurate list of new construction availability.***
3. The New Construction market indicators ***show significant differences*** from existing homes, and need separate tracking. Examples: ***Sales price to list price ratios*** are higher for new construction. ***Days on Market*** is much longer. ***Price per Square foot*** and ***Median Sales Price*** are significantly higher.
4. Unlike homeowners, Contractors ***need*** to sell their completed homes. They use "buyer demand" in making building decisions. ***Contractors need to know the new construction competition for deciding where to build, in what price range, and at what price.***
5. National agencies distinguish between existing and new construction home sales. It is the New Construction market that gives greater information and carries the most respect. ***Tracking the real estate market demands comparing our local new construction data with national figures.***

Proposed Solutions

The committee of ARMLS looking to reduce and simply the number of fields in their database is considering ***dropping the "Age Description" field entirely.*** If someone wants to determine the number of New Construction homes, they go by the ***"Year built"*** field.

Well, that targets another problem. Of the 5,290 homes current on May 3rd, 2009, 125 of them have the "Year Built" field below 100, and 162 of them have blank fields! So ***287 current homes are without a "Year Built".***

Some of these "***Year Built***" blank fields are coded as "New Construction" homes and some are not. Also, there is no accurate way to separate occupied from vacant homes. ***Choosing to use only the "Year Built" field would lead to accepting as "New Construction", occupied homes and some previously sold homes.***

We could of course, **declare** homes built within certain years as "New Construction", and forget about occupancy or previous sale status. But many brokers find this definition unacceptable. Conclusion: it is **useless** to use the "Year Built" field to accurately count "New Construction".

If the ARMLS membership wants accurate **New Construction** data, I propose the following:

1. Decide on a **workable definition** of New Construction that is useful for agents and buyers wanting the information. My own definition:
"New Construction homes are those that have never been occupied and have been built and listed within the previous 36 months."
2. Keep the **"Age Description"** field and **require** its use for all listings. Suggested choices might be: ***Existing, New Construction, Historical, and 25+ age*** homes. ***Leaving it blank would not be an option.***
3. "Coding a listing as "New Construction", **would require** "Vacant" being chosen in the "Showing Instructions" field.
4. Require the **"Year Built"** field. Coding a listing as "New Construction" **would require** only particular years put into the "Year Built" field. ***Blank fields would not be an option.***

Any of these points is arguable. Yet, ***we must do something if any meaningful "New Construction" data is to survive.***

While waiting for a workable solution, **Mount Data** will use definition #1 to compile its data. It will count as New Construction, only those homes that are explicitly marked "New Cons" in the Age Description field.

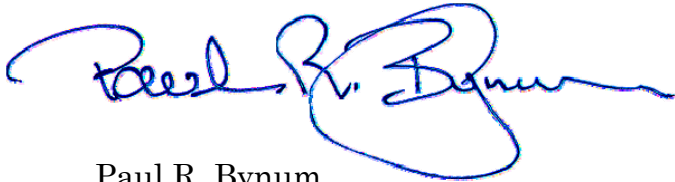
Please realize for all the reasons discussed above that this count will be inaccurate and grossly understated.

If coding a listing as "New Construction" in the ARMLS database **becomes impossible**, Mount Data will only report the **total** market.

I would be pleased to talk with anyone interested in helping to bring about a workable solution.

Summary

This report shows the *lack of accurate data* in collecting and analyzing the “New Construction” real estate market in Northwest Arkansas. Sources of errors include a changing market combined with an inadequate structure for posting data to the MLS database. Exhibits confirm the argument. Reasons for maintaining “New Construction data are offered. Possible solutions include: filling-in required fields in the database. Interested members need to talk about these issues.



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Determining New Construction Data Benton and Washington Counties 5/3/2009

Currents Built 2009				
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<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	91	0	55	146
Left Blank	18	1	7	26

Currents Built 2008-2009				
<i>Listing Shows Home As:</i>				
<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	177	7	145	329
Left Blank	18	1	7	26

Currents Built 2008				
<i>Listing Shows Home As:</i>				
<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	86	7	90	183
Left Blank	121	19	16	156

Currents Built 2006-2009				
<i>Listing Shows Home As:</i>				
<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	246	29	199	474
Left Blank	387	304	182	873

Currents Built 2007				
<i>Listing Shows Home As:</i>				
<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	43	7	26	76
Left Blank	90	73	80	243

Currents Built <=2005				
<i>Listing Shows Home As:</i>				
<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	7	5	12	24
Left Blank	918	1,601	624	3,143

Currents Built 2006				
<i>Listing Shows Home As:</i>				
<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	26	15	28	69
Left Blank	158	211	79	448

Currents Built All Years (not including blank years)				
<i>Listing Shows Home As:</i>				
<i>Age Desc Category Is:</i>	Vacant	Occupied	Unknown	Total
New Cons	253	34	211	498
Left Blank	1,305	1,905	806	4,016

For May 3rd, 2009 Current Database [Click Here](#)

Of the 507 currents that are coded as "New Construction", nine have the "Year Built" field blank. Seven are shown being built in 1930!

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