

# Adequacy of BRKW's Market Analysis

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32 years of mortgage banking experience. Knowledge of appraisal practices and property value trends. I consulted with a local commercial appraiser to determine what is required in a reliable and credible Market Analysis.

# Time Frame of home sales Comparables

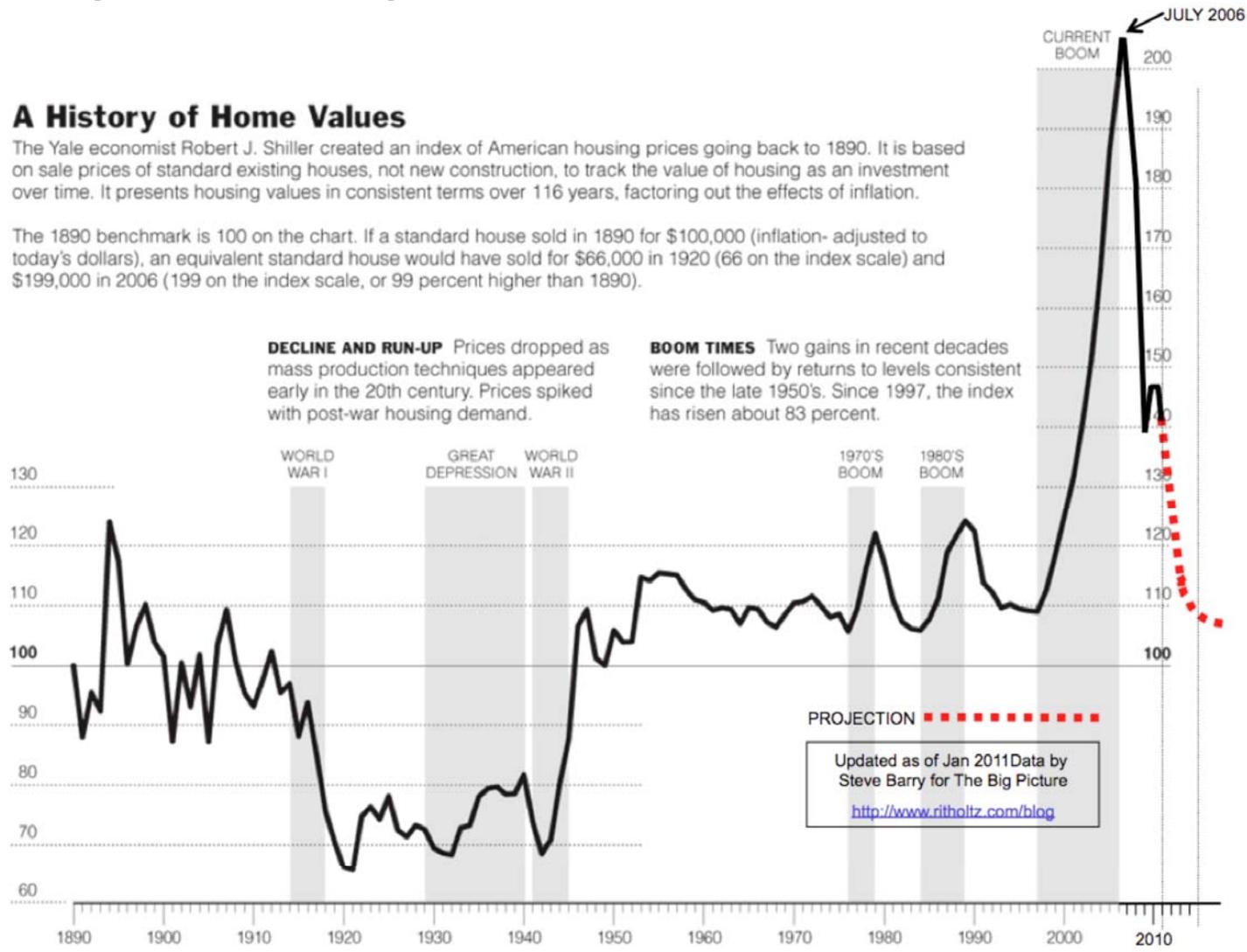
- BRKW says in their report, that they are using home sale comps from 2006 and 2007 as this was a period of market stabilization unlike the sharp decline of values today.
- For a reliable market analysis, current comps should have been used. 2006 was the peak of the housing market and this would result in less of a value loss than using today's values during a depressed market.
- Current lending practices would not allow for home sale comps older than 6 months to a year. Lenders would never allow an appraiser to use comps from a peak market, when the market is not like this today.

# July 2006 peak of the market

## A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).



Source: "Irrational Exuberance," 2nd Edition, 2006, by Robert J. Shiller

Bill Marsh/The New York Times

## BRKW states the following in their study conclusion

- In a declining market the introduction of a perceived negative factor into this environment can have a stronger impact than if appearing in a growth market where demand is more important.
- So why didn't BRKW use recent home sales comparables, to reflect closer to what the actual property value loss would be for our Scandia residents today?

# BRKW used same comparables for another EIS study

- BRKW used some of the same comparables for a market study they did for Excel Energy in 2007 for a Fly Ash Landfill site in West Lakeland, MN on Tiller owned property.
- They utilized comps from 2006 and 2007 which at that time were current comps
- They used 3 of the same comps at the Rosemount Mine and 6 of the same comps at the Andover Mine
- This brings into question whether they used 2006 and 2007 comps just to short cut the work needed to prepare a study for the Zavoral/Tiller Mine, rather than finding new recent comps.

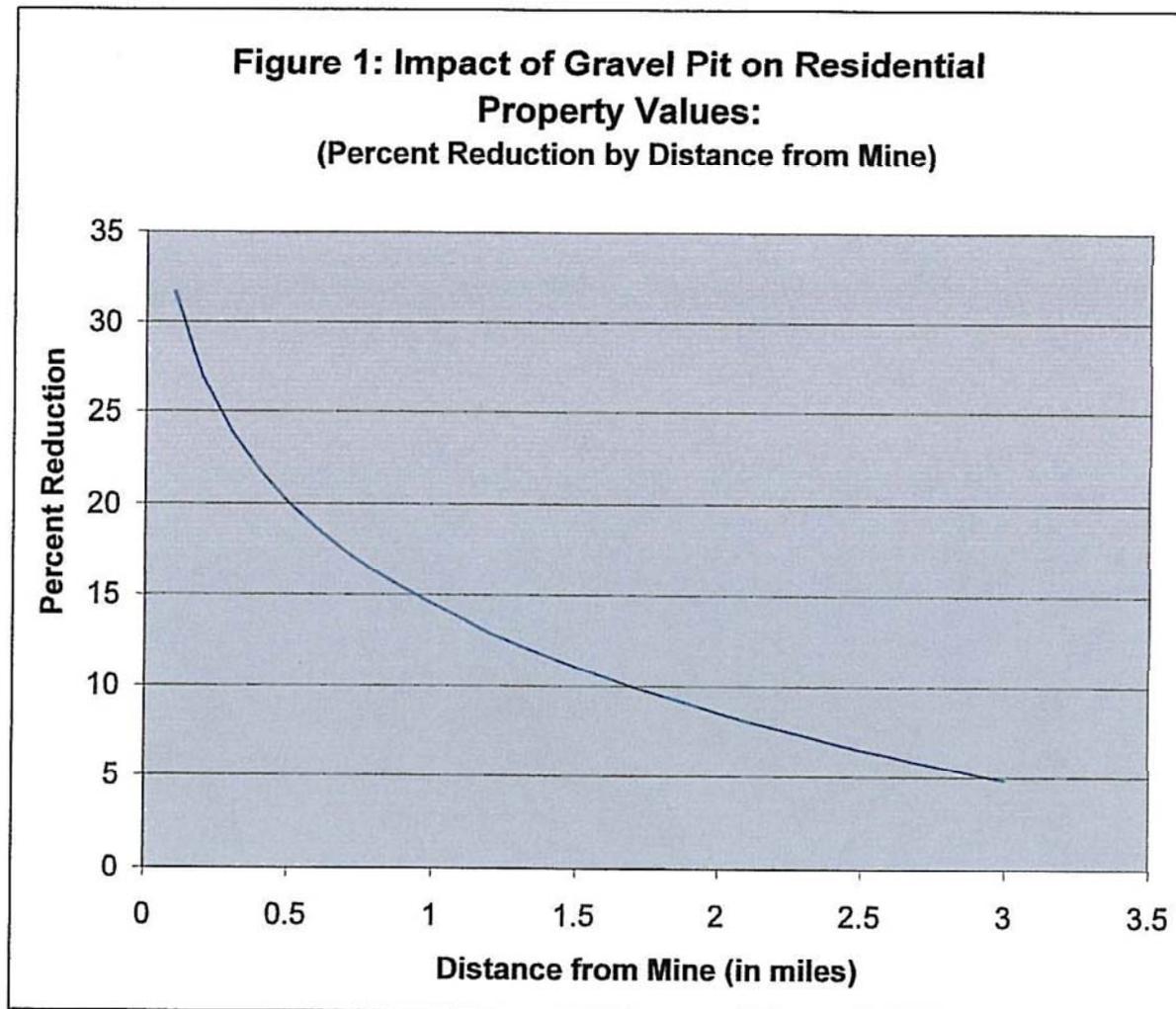
# Property value study approach

- BRKW used matched pair comparable approach, using 4 gravel mines and 2-3 pairs of property comps. They compared one property close to the mine and one further away.
- This is a very small sampling of information.

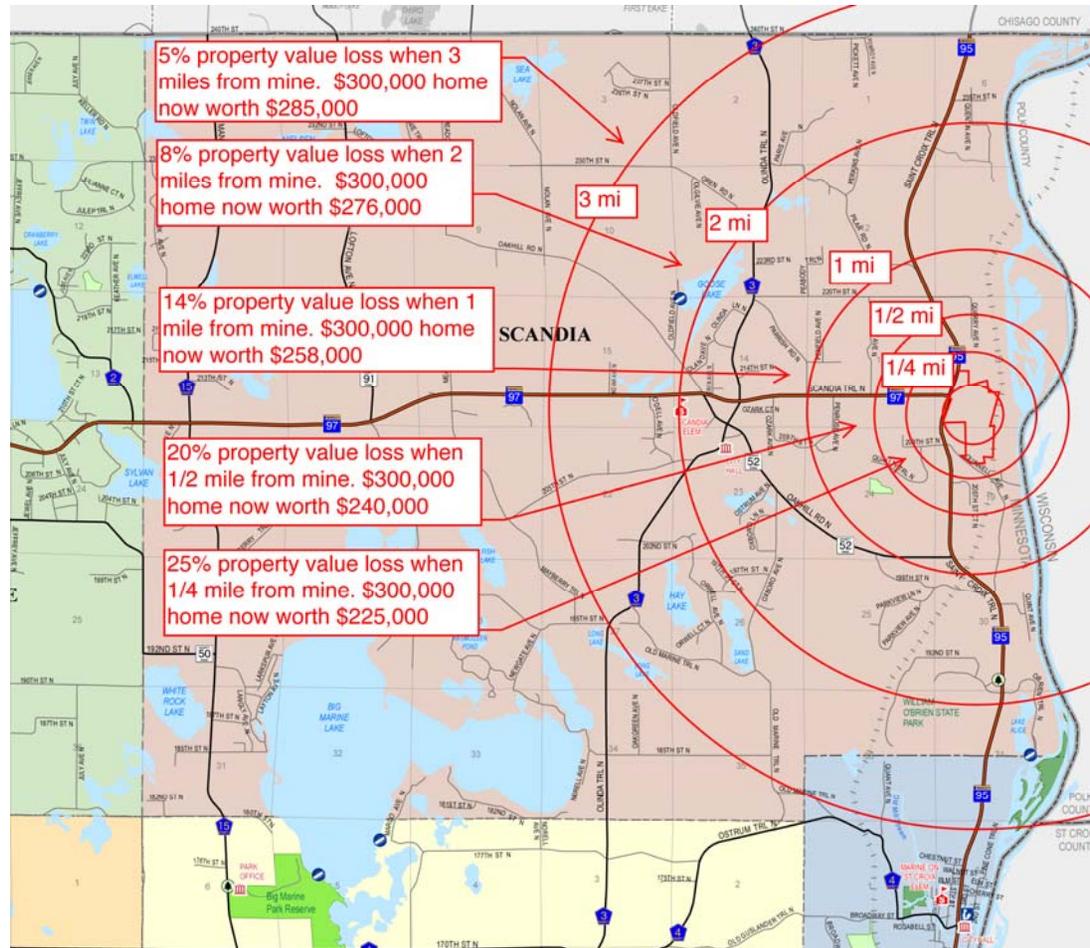
# Hedonic pricing model

- Hedonic pricing models use a statistical regression technique that allows for estimating the impact of one factor while holding the other factors impacting house value constant.
- Diane Hite, a Professor of Agricultural Economics used this method in a study that she did regarding property value loss due to a gravel pit in Delaware County, Ohio. Diane examined the effects of the distance from a 250 acre gravel mine, on sale prices of 2,552 residential properties from 1996 to 1998.
- Hite study uses 2,552 properties vs BRKW using 22

¼ mile from the Mine has 25%  
reduction in value vs BRKW is 2-5%



# Value losses in Scandia according to the Diane Hite study



# Two other property value studies

- Richland Michigan Gravel Mine property value study done by W.E. Upjohn Institute utilize the Diane Hite Hedonic method.
- Rockfort Quarry property value study done by Centre for Spatial Economics utilizes the Diane Hite Hedonic method.
- I would conclude that there was not enough data collected by BRKW to determine property value loss in Scandia

# BRKW's Market Analysis in-adequacies

- 1. Very small sampling of 22 homes versus 2,552 home in the Hite study.
- 2. Only used small data set analysis - matched pair approach . Adequate appraisal would have also used large data set analysis also, like the hedonic method.
- 3. Doesn't explain why the scope of study only utilized a 1 mile radius of affected properties and then why they end up with only ¼ mile for affected properties
- 4. Did not use a cross section of properties, such as high priced, low priced, large and small acreage. Especially given this is typical in Scandia. The home sales used were all in the \$200,000 - \$300,000 range.
- 5. Did not use recent comps within the last couple of years. Used 2006 and 2007 comps from the peak of the market, which would have shown less of an affect in value loss.
- 6. Did not use comps from the existing Scandia Mine and the Franconia Mine.
- 7. Study did not analyzed the 10 year, 5 year and 1 year plan. For example the 1 year plan due to extreme traffic would have more impact on value for a shorter period of time.
- 8. Used Mine comparisons from Maple Grove, Rosemount, and Andover which are very high density housing in a suburban setting. This is not comparable to Scandia's rural nature and unique river front properties.

# Review opinion

BRKW's Market Analysis, is not adequate to determine property value losses in Scandia, due to the proposed Zavoral/Tiller mine.

BRKW actually states in their study conclusion: "Basically the analysis is inconclusive" Then they go on to give an arbitrary value reduction of 2%-5% in a ¼ mile radius from the mine.

Scandia residents expect this report to accurately reflect the impact of property values on their homes and it does not.