

The Pitfalls of Using Listing Services for Market Analysis



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On the Reliability of Using Broker-Supplied Listing Sites for Market Trend Creation and Analysis

Constructing reliable historical trends for specific geographic markets is not straightforward – and using listing sites where brokers or renters post units available for rent is a questionable strategy.

Many data providers of rent trends rely on broker-supplied inputs to calculate an “average” rent and vacancy, claiming that this “real time information” is of value, and that listing sites feed their assessments of market trends directly (and instantaneously, as listings are updated).

This is problematic for a number of reasons.

I BROKER-FED SITES ARE NOT COMPREHENSIVE.

First – any assessment of average rents and vacancies needs to rely on comprehensive information of just how many units of inventory define a geographic market. By definition, listing sites only include available units that have been posted by brokers or owners who have paid to advertise and hope to find a tenant through the listing site’s promised reach and service.

Listing sites by definition therefore cannot even come up with what constitutes the most basic definition of a geographic market – a comprehensive view of inventory.

Second – consider the mechanics of how units that are vacant/available are advertised in a listing site. What exactly constitutes a “vacant/available” unit? Is it up for renewal and the tenant is stalling? Brokers and landlords tend to list apartments with higher rents as a threat in order to push tenants to sign renewals. Does this constitute availability? If so, is the apartment actually vacant?

It is highly doubtful therefore that listing sites can come up with a consistent aggregation of a market’s vacant stock, rendering how they come up with vacancy trends unreliable. Given that vacancy is defined as vacant stock/inventory, listing sites cannot consistently monitor either the numerator or the denominator.

Third – consider the mechanics of collecting and aggregating data on rents. Brokers are not necessarily provided with correct incentives to post the true market rent. Most brokers post a range of rents starting at a) an artificially low base with the hope that it will draw a prospective tenant (a bait and switch strategy); and b) topping at a high level to convey that the apartments are desirable. While these motivations seem contradictory, it is one way brokers often try to transmit signals to the market and generate interest.

In short, an approach that relies on translating broker-fed availability and rent data to define a market’s inventory, vacancy rate, and average rent is likely to rely on incomplete and inaccurate information.

II BROKER-FED SITES ARE NOT CONSISTENT.

In late 2016, the Reis Economics and Research team ran a test to compare information on competitive stock – defined as investment-grade market rate rentals, usually in multifamily buildings with 40 units or more – and whether or not information from typical listing sites will allow analysts to construct reliable market trends over time.

Consider Reis data on the Downtown Manhattan submarket. Reis data for Lower Manhattan in late 2016 shows an inventory of close to 25,000 market rate units, with approximately 500 units as vacant. A quick polygon search from a popular listing site suggests that 4,000 units are available. Which figure is correct?

The first indication that the listing site’s information is unreliable is that there are obvious duplicates on the listing site. Buildings and/or units available for sale were listed twice; generic photos were used to describe different listings. Presumably, if users had to scroll through several pages, the units for which advertisers paid the most could appear at the top of each page.

Second, 4,000 available units for a submarket inventory of 25,000 units suggests that the vacancy rate for Downtown Manhattan is 16%. That is patently absurd for a supply-constrained market like New York City.

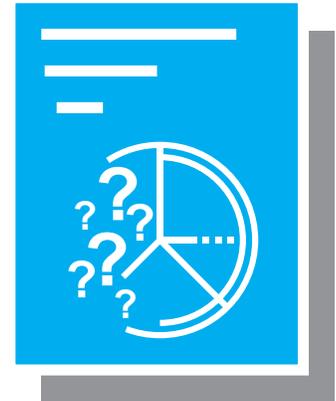
Consider how broker-fed sites generate information on buildings that are fully occupied, or that do not list any units as available for rent. A true assessment of market trends needs to rely on a comprehensive approach to surveying and monitoring all properties in a rigorously defined metro or submarket. How do broker-fed sites generate rent levels, or rent changes, over time if some units are indeed rented (the stated purpose of listing sites is to help lease these available units, after all), and are therefore delisted from the site?

Reis has time-tested methods for assessing rents that leasing managers would have charged if units were to become available. This provides the basis for calculating unit-weighted rent levels that encompass the entire market, and not just units that are posted or advertised for lease because they are unoccupied. As such, Reis calculations for rent changes over time are not subject to the kind of severe selection bias that plague broker-fed sites

III BROKER-FED SITES ARE NOT CURATED.

Defining a market’s inventory is not simply a numbers game of “who has more buildings.” Rigorous means of identifying which properties should be part of the analysis is even more important than simply the count of properties.

For lenders or investors primarily concerned with investment grade market rate rentals, what is the inventory of market rate apartment units for rent in Downtown Manhattan? This neighborhood houses a number of student housing for Pace University, NYU and other nearby schools. There are also a number of affordable housing properties (federal) and rent-regulated units (city) that require a salary verification. Are these student and regulated/affordable properties included in the 4,000 available units? Are they marked as such?





The broker-fed site listed no data on unit numbers per building: not the total, not the number available and not the breakdown by bedroom type. It did not qualify units as "Income Eligibility required." It did not mention if it was market-rate, student-only or LIHTC/affordable.

Aggregating listing site-based information on a consistent, periodic basis to generate a true vacancy rate and market average rent for a monthly or quarterly trend line has already been shown to be a dubious task. Layer on the challenge of vetting which units ought to be part of the competitive stock, and the exercise becomes even more difficult. There are research firms that claim that listing site data is "immediately passed through" to inform their market trend analysis. But what does this mean? Do the analysts sift through every single listing and all the data as it is entered by brokers or owners who paid to advertise? Who eliminates the duplicates? Is there anyone who double checks with the building manager as to whether rents charged by listed units are plausible, given historical data on how studios, one-, two-, three- or four-bedroom units have performed?

A number of other findings in the sampled analysis include:

- Some buildings listed rents for a 3-bedroom when there was actually no 3-bedroom in the building, unless one were to build a wall splitting up the small living spaces.
- Some buildings listed rent for studio and 1-bedrooms but no rent for a 2-bedroom where Reis inventory shows numerous 2-bedroom units in the buildings (verified by the building's leasing managers). This is indicative of an utter lack of knowledge of units by type.
- All of the buildings in the sample above have "Availabilities" ("Y" for yes) on the site when Reis shows that three of them have 0% vacancy. *Again, who is checking to see if these listings are accurate or even legal?*

IV BROKER-FED SITES CANNOT BE CONCLUSIVE, OR RELIABLE.

Given these inconsistencies and shortcomings, it is impossible for an analyst to generate net absorption, supply changes, vacancy rates or rent trend lines over time that are conclusive or reliable. There is no way that they can be truly reflective of market conditions.

Listing sites provide biased, incomplete inputs. Relying on broker-fed sites for generating market trends is an approach with significant shortcomings. Any rent or vacancy trend lines yielded from broker-fed data cannot be trusted to reflect market conditions.

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