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CELEBRATING 55 YEARS

By Patricia Amidon: Here's hoping for an upswing in 2012!

February 02, 2012 - Northern New England

What is in store for real estate for this coming year? Before answering that question, some review is needed. More than at any other time during my appraisal career real estate is in a state of flux. The resulting uncertainty and unpredictability has created havoc with not only the U.S. economy but global economy as well.

According to recent news articles, single-family real estate prices in general have decreased by 32% across the board bringing home values to 2003 levels. This does not bode well for those who banked on the equity in their homes to help fund life essentials such as retirement. The strategy of selling the larger family home, buying and moving to a smaller residence, and using the price difference between the two homes to finance a retirement life style is no longer a viable option. Some areas such as Detroit have been so hard hit that even banks have abandoned residences, and the municipality has razed the houses in an effort to prop up the value of the remaining occupied homes and to alleviate urban blight.

Commercial real estate is in similar straits. In some areas of the country, this type of property has lost more than 50% of value when compared to the highs of 2006 and 2007. With investment grade commercial real estate, cash flow is king. Contrary to past expectations, no longer are investors relying on future appreciation and reversion to provide substantial return on their investment. A property must cash flow on day one before an investor will take a serious look. The prudent investor is also taking a very hard look at the quality of the cash flow. As we have all become aware, cash flow to a property can change overnight with the closing of a business, layoffs, cutbacks, government regulations and the like.

Perhaps the hardest hit segment of real estate is land. With residential and commercial properties decreasing in value, demand for new construction is minimal. This very low demand places negative pressure on land values. In our practice, we have seen some land values decrease by as much as 60%.

To make a bad situation even worse, lending institutions have over-reacted to the extremely lenient practices of the high flying days to the point where even very well qualified borrowers are having trouble obtaining credit. Banks are requiring much more documentation and verification of income and assets than at any other time in the past.

With all this in mind, what will 2012 bring? My predictions include a stabilization of the housing market. Banks are slowly working through their portfolios of foreclosed single-family properties which must be accomplished before health can be restored to this segment. The one segment that appears to be gaining strength is the multifamily market as single-family home ownership loses its luster. In terms of commercial property, cash flow will continue to be king. The savvy developer will take advantage of low land values to land bank for future real estate projects. Speculative real estate development is a bygone phenomenon for now.

In addition, the stock market will go up, unemployment will go down, gas prices will continue to fall, the US Congress will pass a balanced budget, and I will win the lottery!

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