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# Appraisers in Vermont well into the cycle of commercial activity

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Appraisers in Vermont are well into the annual cycle of commercial activity, which heats up each year as the snow melts and borrowing for purchases and renovations peak. Sales activity and the lending that follows is incredibly seasonal in our area; almost 3 out of every 4 residential sales occur between May and September each year.

In our portion of the state residential sales volume is up 15% over last year, while the median price of a transaction is down 12%. However, this does not mean value is down 12%! A large number of recent transactions are sales of financially or physically distressed properties, which have literally been on the market for years, at asking prices well above where buyers would accept them. Recently many sellers came to grips with reality, lowered their asking price, and accepted offers to purchase. This process appears to be healthy for the market as it clears out years of available inventory and may form a base upon which a residential real estate recovery can begin.

Despite historically low mortgage interest rates there are a large number of cash-only residential transactions. In the Killington market of second homes around the ski area almost 60% of sales are now all cash. While it is nice to see buyers with enough faith in vacation real estate to take a complete equity position, it seems odd they will not leverage this position with a mortgage at prevailing rates well below 5%. Mortgage lenders report an adequate supply of investors for second-home mortgages and perhaps these cash-only sales are driven by a buyer who feels they can make a better return on their cash in a vacation home than in their savings account, or the stock market.

Commercial real estate activity in central Vermont is complex. Several national and regional retailers and restaurant chains including Dollar General, Auto Zone, Panera, Kia, Aldi and IHOP have recently invested into bespoke buildings in our best commercial locations. However, commercial activity driven by local investors and owner occupants in our average commercial locations and Victorian-era downtowns is very slow. As prices in this second market bottom it presents an incredible opportunity for local investors and start-ups to purchase real property at a fraction of where they could five years ago. A few local investors with cash on hand have been active in this market to the extent they can capture new tenants.

Finally, while repair of road and bridge damage caused by Tropical Storm Irene is nearly complete, owners and mortgagees of private property damaged in the event are just beginning to come to terms with their situation. Many damaged properties are located in the flood hazard area and subject to the 'substantial damage' clause in local zoning ordinances required for participation in the flood hazard insurance program. This clause severely limits repair and redevelopment to elevations above the flood plain and with flood-resistant construction criteria that conspire to make most renovations financially infeasible. These are incredibly complex valuation assignments when the purpose of the assignment is to develop an opinion of 'market' value; that most probable price one would pay and another accept, both well informed and acting in their own self interest. Just along the Ottauquechee River from Killington to White River Junction there are 100 owners who have applied for complete relief through an outright purchase of their property (at assessed value) under the flood hazard mitigation program funded by FEMA and the state of Vermont. Appraisers interested in serving this market must come to grips with the definition of market value and how these purchases will affect it.

Sean Sargeant, SRA is the 2012 president of Vermont chapter of the Appraisal Institute, Rutland, Vt.