nerej CELEBRATING 55 YEARS

Energy, transportation and appraised value

January 08, 2015 - Appraisal & Consulting

I believe that the major obstacle to a truly healthy residential real estate market is the debt hanging over so many recent college graduates. Not just the amount, but the interest rate that they are locked into paying. Until there are more first-time buyers, the entire market will be held back. The solution to that problem is being addressed by others in a much higher pay grade than mine.

That said, for those who have enough cash and credit to buy real estate, what are the next factors?

Well, of course, location, location and location. But the definition of a good location has changed over the last fifteen to twenty years. Much of the definition of a good location comes back to energy and transportation - two industries that are experiencing tremendous change.

From the late 1990s up until the financial meltdown in 2008, liberal lending standards, low interest rates, relatively low energy prices and a relatively strong economy created lots of buying power. Those factors encouraged many to seek the idyllic ex-urban home experience - far from the hustle and bustle of the city, with large homes on large parcels of land. The family could afford to spend on fuel - for travel to their jobs and for heating their homes. Being away from highways and train stops was the ideal. Long commutes were a reasonable trade-off for life in the country - until mortgage availability dried up, home equity fell below zero and gasoline prices spiked.

The trend reversed in 2008. Now the question for many suburbanites and ex-urbanites became "where can I save some money?" Can I shorten my commute, take the train, turn down the thermostat, buy a more energy efficient car? The government and industry reduced interest rates and set new energy efficiency standards - pretty much out of necessity. But home values were down for a long time and the ability to refinance or buy a new automobile was out of the question for many.

Those who had mobility - who were not trapped in an underwater mortgage - opted for the city, the near-in suburbs, and the outer suburbs that are served by commuter rail and subways. The values in areas not served by public transportation were much slower to recover than those that are served that way. Inner city values are climbing much faster than the outer suburbs. Demand for smaller houses that are less expensive to heat and maintain are increasing in value faster than their larger competition.

Now, add services like Uber and Lyft. The suburban commuters who had to walk a mile from the train station to their job now have a faster cheaper alternative. The city dweller who was at the mercy of taxicabs - especially on rainy days - now has a faster, cheaper alternative. Even the occasional commuter can now have a "part-time car-pool" at their beck and call. Prices for downtown parking may decrease as less people feel the need to have their car in the city just in case they need to visit a client across town or across the state. All of these things change the definition of a good location.

Energy prices are have been in a rapid descent for about a year now. Will they continue to decline?

Auto makers are building more and more efficient cars. Will miles per gallon continue to improve? Hard to predict. But the trend toward higher urban values started over seven years ago. A few months of low gas prices is not likely to change that trend.

And, if a computer programmer recently graduated from college with a mountain of debt, will he be more inclined to buy a new car or write an application that saves even more money than Uber or Lyft? Will that person actually commute to work - or write code on a tablet on their lap at home? Have these factored changed the definition of a "good location?" Most likely, yes, and most likely, we will see it in the value of homes that sell.

Shaun Fitzgerald is the owner of Fitzgerald Appraisals, Easton Mass.