nerej
CELEBRATING 55 YEARS

The changing face of the real estate market

June 12, 2008 - Appraisal & Consulting

Without a doubt, the U.S. economy is facing a number of challenges, some of which include the subprime debacle, the rising cost of fuel, and the falling value of the dollar in relationship to other currencies. Each of these factors has the potential to significantly impact the real estate landscape as we know it.

Almost all communities have been impacted by the subprime debacle as evidenced by depreciating property values, a glut of residential properties on the market, longer marketing time and increasing home foreclosures. In some communities properties have been abandoned, neglected (which can result in frozen pipes, overgrown lawns and other problems), and/or vandalized (such as stripped of all copper). Such derelict properties tend to depress the value of surrounding properties and can create a neighborhood in decline.

Everyone has been impacted by rising fuel/energy costs, particularly at the gas pump when filling the car gas tank and when paying the heating bill. In the past year, fuel prices have skyrocketed with little relief in sight. Therefore, energy costs are taking a larger and larger chunk out of a person's/family's budget. Rising energy costs piggyback on the public's increasing concerns on global warming. Unless a new, low-cost source of abundant, non-polluting energy is found (an unlikely scenario), high energy costs are here to stay and will have a far-reaching impact on real estate.

Property owners are now more than ever interested in reducing consumption and conserving energy. In terms of real estate, this interest will most likely be expressed by a renewed interest in urban living close to employment, retail and service centers and where public transportation is readily available. The trend that began shortly after World War II of the move to the suburbs will reverse itself. In addition, the McMansion -- so popular in the last several years when mortgage money was readily available and fuel was relatively inexpensive - will be deemed socially irresponsible. The trend will be toward smaller-sized, more energy efficient urban residences as well as work spaces.

The trend of telecommuting will continue and intensify. More businesses, social service and government agencies will move to a three or four-day work week so that workers can save on gasoline and other transportation costs. Green buildings (those that are environmentally friendly and energy efficient) are in high demand with buyers willing to pay the extra costs of such properties.

The high price of diesel fuel is increasing the cost of transportation of goods via truck. As diesel fuel costs increase, a renewed interest in transportation by freight train is anticipated which will necessitate the improvement of existing tracks as well as the construction of new rail lines. In addition, these high transportation costs encourage the production of goods including foodstuffs on a more local level. This trend will increase the demand for smaller, more local farms as well as manufacturing facilities.

The falling value of the dollar in relationship to other currencies has the impact of discouraging foreign travel on the part of U.S. citizens and encouraging travel to the U.S. by citizens of other countries. This trend could very well benefit the tourist industry throughout the country by increasing the occupancy rates of transient lodging facilities and attendance at restaurants.

Of the three factors of the subprime debacle, increasing fuel prices and the falling value of the dollar, increasing fuel prices has the potential to most profoundly shape all sectors of the real estate market as we know them. This is the one factor that cuts across all segments of the market including residential, commercial, industrial, agricultural, recreational and institutional. The next decade promises to be an exciting time as we all work through this energy crisis.

Patricia Amidon, MAI, is principal at Amidon Appraisal Co., Portland, Me.