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Summer musings, possible misgivings: A few seasonal observations and questions - by Bill Pastuszek

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Coming out of a nicely timed July 4th holiday, and one that was much needed according to my informal survey, we move right into the heat of the summer. A few seasonal observations and questions.

- It's a hot market out there but exactly how hot? Are we so conditioned that we continue to chug along and maybe miss something?
- Always good to take note that the market, while monolithic at the highest level, has varied gradations and subtleties. That's what analysts and appraisers are hired to do, to look after the subtleties and provide an accurate, micro view. The view from 30,000 feet can sometime make us blind to what is happening on the ground.
- The Mass. Association of Realtors reports that the number of closed homes sales dipped in May while Median Prices (homes and condominiums) hit an all-time high. Something not seen recently. Should we worry?
- The Fed's Senior Loan Officer Opinion Survey on Bank Lending Practices notes that, "on balance, banks reported tightening standards on CRE loans....banks reported tightening most credit policies on CRE loans over the past year. In doing so, banks cited a less favorable or more uncertain outlook for CRE property prices, capitalization rates, and vacancy rates or other fundamentals as their most important factors. Participants also cited a "reduced tolerance for risk" as an important reason for tightening CRE credit policies. Is this harbinger of the future?
- The survey indicates tightening terms on multi-family, land development and construction loans. Debt service coverage ratios trended up on multi-families.
- Based on several reports and anecdotal evidence, CRE loan demand has been less robust. Commercial and Industrial (C&I) appears to remain relatively steady, with many bankers willing to be more generous with smaller companies.
- Overall car sales are off dramatically from last year. Could this be an area of concern when couple with slow GDP growth?
- Overall housing inventory is significantly down from a year ago. MAR reports a statewide 2.9 months of supply, which is probably lower in many close-to-Boston communities. Why aren't more people selling?
- Investor surveys suggest that cap rates are stable or modestly higher across the spectrum. Investors are reported to be cognizant of the potential for additional rate increases and market corrections in response to new deliveries of supply and less pronounced tenant demand. Worried, or, is this a sort of good news item?

- Interest Rates. Economic growth is likely to be a strong driver of higher rates. While the Fed indicates a willingness to raise rates, a slow economy may work against that plan, which is “data dependent,” i.e., a work in progress. Working out the results of the quantitative easing is a major task, which will require some resolve and effort.
- Big warehousing, big retail, and big grocery. Amazon is becoming the big disruptor. Again. The company has built huge warehouses, opened bookstores (!), is giving a new meaning to home delivery, and threatens to create a new level of competition in the grocery business. Does this have real estate implications? Oh yes. Think about it.

There are many more questions about real estate, real estate valuation and economic matters. There are answers out there; not all of them good ones. But, unsatisfactory answers should spur the questioner to ask more questions, perhaps better questions. In many things, certainly in matters of the economy and in real estate, asking the right questions is as important as the answers sought. The worst case scenarios are not asking questions or accepting facile answers.

In any case, let's talk about this at the end of the summer. In the meantime, let's remain vigilant and think about the next opportunity to get to the beach or the mountains.

Future column: Looking forward to the issuance of 2018 USPAP. A favorite biennial event, if not for you, certainly for me. Soon I will provide you with highlights for your condensed reading pleasure.

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