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Appraising and underwriting during periods of inflection - by David Kirk

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Market inflections are a challenge for both the appraiser and underwriter in the commercial property markets. Economic and property market trends are used for forecasting, and forecasting methodologies are often relied upon in commercial property markets. New patterns, inflections and changing dependencies complicate the forecast, and inform the data collection and methodologies. Nothing is easy peasy anymore.

Macro and micro economic data aggregations are a foundation and guide and should not be ignored. Global economic inflections should be reconciled with conclusions. If the global economy stalls or sinks, the national economy will be impacted. Accordingly flux and flex in trade negotiations are a concern. Currency markets require an awareness, and another primer. Fluctuations and headlines highlight the importance of currency markets on the U.S. economy – trade and travel for instance. How deep the dive at the macro level is will depend property and the related markets. Credibility depends upon the understanding and soundness of the foundation.

Primary research and anecdotal data are always essential components to aggregations. Particularly at periods of inflection, the appraiser and the underwriter should be well prepared to find and reconcile information collected that is off trend. Uncertainty in the marketplace can impact activity as much as dramatic symptoms or events of contraction or inflection. Credit crunches are notorious events of trend inflection happenings. Because of the capital intensity of real estate, real property markets are directly correlated to capital market activity. Credit crunches are complex and vary. Liquidity in commercial property markets is one disruption derivative of the credit crunch.

Fundamental economic stability currently prevails and persists in most commercial property markets - geographic, property type and related capital markets. Employment gains, economic growth, personal income gains are moderately favorable. Property occupancy, pricing and rental trends are stable. Rates of growth are declining in many markets, regional and local economies. However, no headlining volume of layoffs, insolvencies, foreclosures. Okay. Refresh the dashboard, reset,

consider, analyze, compare, prelim summary, scrub and scrape and scavenge (search for anecdotes and outliers), summarize, reconcile and conclude. Charge and recharge.

Reconciliation of data and results from analytical methodologies is the final shot at estimating the value, or values if a range is desired or compelling.

Credibility is always a prominent consideration. In periods of inflection or anticipated inflection, relevant data and appropriate methodologies can vary. Both appraisers and underwriters have challenges in this market. Both professions contribute to liquid and orderly markets.

With off trend data and out liars, consistency and credibility in analysis and conclusions are more challenging.

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