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## **In the face of uncertainty - by Bill Pastuszek**

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Here we all are, social creatures, prohibited from contact with others. Our public places are not full of the humans they were designed for. Real estate is not being used as it was intended. We venture from our homes carefully. We think of those doing frontline work. And while we ponder and worry and hope, we also consider what all this means for our families, our communities—and yes, the economy and our work in the valuation of real estate. I don't have definitive answers; shared here are questions and reflections of my own and of others.

Real estate appraisal is based on measuring and understanding human behavior as shown primarily through transactional data. An underlying rational process underpins appraisal, even behavior, even though markets are not necessarily rational. Appraisers don't make markets; the appraisal process is rooted in understanding the behavior of market participants. What appraisers think about the market and market participants' behavior is beside the point. Our opinions are based on market actions, whether those actions are rational or not. That we report and analyze market actions accurately and objectively in order to support our opinion, does matter.

Think of an appraisal as an opinion about a lot of other opinions that translate into actions.

What do we make of current market conditions? As is repeated over and over again, we are in uncharted waters. But that shouldn't cause paralysis.

We can look at the past to help us understand the present. For example, look at what happened to the real estate economy in 2008, 2001, 1987. The most pertinent conclusion that can be drawn from past panics is that things get better after getting worse. So comfort can be taken in that: how soon does it get better? And what does it mean, to "get better?" What will be the "new" normal: probably not what it is right now.

I recently spoke with an investor. He contacted me because his bank said I would be able to explain what is going on "out there." The banker said they would "ask the appraisers. They know, they will

tell us.” The investor then proceeded to question me as to how long it would take various property types to come back to normal. Good question. I didn’t venture an answer. I did ask him some questions.

Most appraisers have added warning language to their reports informing their readers that the current environment is unprecedented and that great uncertainty accompanies markets, and, as a result, real estate valuation.

Let’s be clear. Adding such language is not a disclaimer and does not absolve its author from all responsibility. Creating an assumption that things are “normal” or will return to normal suggests that normal, both before and after, can be adequately defined.

Consider this. Sometime in the not too distant future, what if all of us observe real estate space is being used in new ways. If individuals and companies perhaps notice that working remotely works well, or that business travel might not be as necessary as we thought, the real estate space might be viewed in a different light. How might that affect various property sectors’ supply and demand? We will have to wait and see.

Meantime, in the absence of transactional data, it’s just a matter of time until there will be some “hard” data, coming soon to your MLS or CoStar account. (That’s a bit of humor, thanks.) Where should appraisers be going in terms of market analysis? USPAP requires such market analysis as is necessary to achieve credible results. USPAP also tells not to base our conclusions upon unsupported assumptions.

While waiting for that incontrovertible data to show up, real time analysis might be in order and include, but not limited to, the following:

- Market participant interviews, to determine are buyers/sellers, landlords/tenants, acting differently, backing out of, revising, or not entering into transactions?
- Lenders: Are they lending, not lending, changing terms, backing out of deals, making concessions to customers?
- Financial Markets: Are there rational takeaways that can be applied to real estate?
- Owners/Managers: Is the crisis affecting property operations, and if so, how?
- Property Sectors: How are different market sectors – each with their own dynamics - being specifically affected? For example, the hospitality sector will have a different feel as compared to, say, industrial or retail. Same with residential markets. Market Rationality/Irrationality: Market participants don’t often act rationally in the short term; appraisers and the appraisal process presume rationality. Real estate is a long term investment

What? You aren’t doing this sort of market research already? Great, good time to start! Clearly

define the scope of the market analysis and the information relied upon in your appraisals.

Everybody wants to know, including the investor: when does the pain end? (If there are appraisers out there, who can predict the future, consider changing professions right now.) We don't know, and probably won't know until we move to the next level, whenever and wherever that might be.

Listen carefully to what is being said. Try to separate out the informed opinions from the uninformed and from those that are a product of speculation. Convey to clients the sense of the market. Value is expressed as a point in time; that's a good thing. Despite all our supposed limitations, appraisers are absolutely crucial in this market in bringing objective, dispassionate, and supported opinions in a time where dispassionate guidance is needed.

Be careful out there, physically, and intellectually. These are trying times, but they, too, will pass. Take good care.

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