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Appraising in difficult times - by Robert Concannon

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Without a doubt, 2020 has already become one of the most challenging periods for appraising real estate in modern history. After the longest sustained economic recovery since World War II, the global economy is currently faced with the greatest health care crisis in modern history. The real estate industry is going to be impacted for the foreseeable future and many brokers/analysts are reporting that it's going to get worse before it gets better. The impact of COVID-19 pandemic on real estate will vary by market segment and location. The extent of its effects will depend upon the duration of the current economic shutdown. Certain sectors of real estate that will likely be hit the hardest include hotels, restaurants, bars and other entertainment retail (particularly in tourist-driven areas) and retail properties and housing (particularly second-home and luxury homes). Based upon the extremely aggressive pace that the pandemic has spread and current lockdown for most non-essential workers, its overall impact to the economy and real estate markets is not yet quantifiable. Once the current health crisis slows, appraisers will be working to determine how and why various market segments will be impacted by a far-reaching set of market forces. The challenges facing appraisers to not only value properties through the current lockdown, but also for the probable market corrections coming thereafter, are going to be daunting.

Most appraisers are going to be on the front lines of the economic fallout from this crisis. A new set of tools will be needed to select, analyze, and adjust market transactions occurring before, during and after this crisis. Market assessments will be critical for any type of property before valuation approaches are commenced. In most disasters, there is an initial collective reaction of shock, then disbelief, and then grieving and sorrow.

Eventually, there is a general recovery with those affected and able moving on with their lives. Any damaged property is repaired and destroyed property is often replaced. The current pandemic is unique in that there will not be any evidence of physically damaged or destroyed properties. Its overall impact, however, may result in an even greater economic impact than a traditional disaster. Because of social distancing requirements being put in place and uncertainty regarding their removal, whenever the public health risk lessens, it is very difficult to know when traditional group

behavior will return to many localities. This will impact almost all segments of residential and commercial real estate markets.

The “invisible nature” of this crisis represents a new set of challenges with respect to anyone attempting to determine a market value. This becomes even more challenging with few recent sales and general uncertainty about the resolution of this outbreak.

More than ever, appraisers need to be the intelligence gatherers for the various real estate markets. This means ongoing discussions with sale/leasing brokers, buyers/sellers, developers/investors and bankers regarding their market/submarket observations, any trends, sales patterns, price reductions, increases in sales/lease listings, and changes in rental, sales, and absorption patterns. Any or all of these might be impacted by the current public health crisis. Factors that create value include utility, scarcity, desire and effective purchasing power. Any or all of these might become in flux in the coming months.

While no one can predict how deeply the real estate markets will be impacted by the current crisis, it is certain that its influence will not go away until the COVID-19 virus is contained and/or a vaccine is developed. With definitive timetable of when this will happen, 2020 may become one of the most volatile periods for real estate in modern history. The coronavirus’s potential impact on real estate markets will largely depend on the duration of the outbreak and whether there is a quick recovery (with a return to overall social and economic stability) or an extended one (longer consumer, social and economic disruptions).

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