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“The trouble with charts these days is that they keep breaking” - by Bill Pastuszek

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We all have no doubt spent some serious time and effort in trying to figure out what is happening and what will happen in our real estate markets. Lots of data, less clarity.

Trouble is, we have enough of a challenge trying to figure out what happened even when the data is in and we have the means to analyze it. Our great challenge as analysts, trying to model the behavior of buyers and sellers, is in interpreting the data just past. We look retrospectively as a guide to current (and future) market behavior.

In stable – or predictable – markets, this methodology works reasonably well. When we encounter instability, we lose the ability to forecast with support and confidence.

In this environment, every release from authoritative sources gets high levels of scrutiny. A different report each day, week, month.

Charts are great; we all consider ourselves experts in reading charts, graphs, and images. Having that intuitive skill saves many from having to plow through accompanying reports that range from being mildly tedious to extremely boring.

I just finished reading an article about charts. The author said, “The trouble with charts these days is that they keep breaking.” Unless we pay careful attention to scale and to the relative nature of data, the huge changes that the economy is experiencing and that is being presented in those charts and graphs we hungrily consume, can be deceiving. And we now have to consider advanced metrics like OpenTable, Google, and The Apple Mobility Index!

Under high levels of anxiety and concerns about getting the future “right,” overreaction sets in. Each new issue sets off another wave of overanalysis.

We just recently experienced levels of volatility in the stock market of historic magnitude. There were

waves of reaction, some rational, some not; some level headed, some panicked.

USPAP advises: “an appraiser must avoid making an unsupported assumption or premise about market area trends, effective age, and remaining life.” Good guidance; what does it mean for current conditions.

Note the use of the term unsupported. The common definition is “not borne out by evidence or facts,” i.e., unsubstantiated. On the other hand, what does it mean to have “supported assumptions or premises?” A definition is as follows: “suggest the truth of; corroborate.”

Some things to think about. Does it matter to have an opinion for the following: How long will it take for the market to recover? Plenty of “knee jerk” opinions are out there based on unsupported assumptions; it’s opinions based on supported assumptions that will survive the crisis and give good guidance in the end. What will the market (the world) look like when it recovers? We will probably know when and if after the fact, real estate being a lagging indicator. Do property sectors function in the same manner? Now is not the time for sweeping generalizations, but for specific observations and analyses. And you are certainly entitled to your own opinion, but consider your professional opinion. There could be a difference.

Real estate is a long-term investment and to react but slowly. Short term turbulence with investors investing long term in a relatively illiquid asset class doesn’t manifest in the same that it does for short-term, easily liquidated investments. These long horizons will skip over short gyrations, even of great turbulence, and will adjust to new market conditions in due course. Short term chaos and extreme gyrations should not be a reason to jump to conclusions. Not the stock market!

As Warren Buffet has said: Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future.” Believe in your forecasts. If you can’t tell what might happen, then say so. This is not a time to be prescient. We are not oracles. Make supported conclusions about markets or don’t make them. While the past may not be the best guide to the future, understanding the past well helps in facing the future. Stick with clear headedness; this is not over, and more will be said and written.

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