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Appraising in the COVID-19 market - by Steven Spangle

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If there is one constant in the real estate industry it is change. Occupancy levels go up or come down, expenses increase or decrease as do rents. Ultimately values move in reactions to the changes.

This year, 2020 has experienced massive changes. Stocks, rents and values had been on a steady march upward for years. Unemployment was very low. Then COVID-19 reared its ugly head and the world changed.

People were told to quarantine themselves, wear masks and keep social distances. Businesses closed and people and businesses lost their income. This has impacted the country but this article is about the impact it will have on the appraisal profession going into the recovery.

Like a significant number of professions, the real estate segment has been significantly impacted. The residential market has seen a drop in the number of listings and the marketing time has significantly increased. As a result some owners have taken the properties off the market choosing to wait until after markets recover.

Many potential buyers are waiting to see what happens to values in a few months. A number of states have moratoriums on foreclosures and evictions. These moratoriums are set to expire in the near future. They have the potential to add lower priced inventory into the market. Something some potential buyers are waiting to see what happens when the market starts to recover. Will there be an influx of foreclosures and sellers eager to get what they can for their property before they face a foreclosure?

The multifamily market has been impacted as numbers of tenants have found themselves unable to pay rent causing problems for landlords who are still responsible to lenders for any loans they have.

The retail, commercial, and industrial markets have not been immune to rent collection problems. Owners of large malls have seen that not just the smaller tenants have stopped paying rent or asked to renegotiate lower rents, also major anchors stop paying or renegotiate. This trend has been seen in all the commercial markets.

Several retail businesses that, prior to the pandemic, had a strong online presence with a well-developed distribution system have done better year to date than they did last year. Unfortunately this has not been the norm and even large retailers are filing for bankruptcy protection and along with many smaller retailers may not reopen or they will have fewer stores.

Some businesses have discovered that having employees working at home can work without any loss in performance and as a result some are rethinking the amount of office space they really need.

The various issues, which I am sure most have seen on the Internet or from other media sources go

to the heart of appraising. Appraisers have to know the market conditions for the type of property, in the specific market, so that we can properly identify the characteristics that influence the subject's value.

Appraisers have to look closely at the market to determine what a reasonable exposure time is and what a reasonable value is.

Appraisers need market data to support sales comparison, cost and income approaches. Old data, which in many instances may be data that was gathered in January 2020 and before may have still been valid as a comparable. Today with a somewhat stagnant market an appraiser has to strongly support such a comparable. The same holds true for rents and expenses. The point of these comments which I am sure most have seen on the Internet or from other media sources go to the heart of appraising. We have to know the market conditions so that we can properly identify the characteristics that influence the subject's value.

The time and market conditions have changed. If tenants are missing rent payments how much will someone pay to purchase a property with tenants not paying and uncertainty about when rents will stabilize and at what level?

The same conditions occur when estimating rent levels. Will landlords be unable to negotiate rents at the pre-COVID-19 level? Appraisers will have to support their conclusions.

Not only do appraiser's face a risk with some clients still requiring them to make a physical inspection of the interior and exterior of the subject, they can also expect to spend more time supporting the sales comparison, cost and income approaches.

These times will probably result in appraisers asking a lot more questions from brokers and lenders about the expectations of buyers and borrowers.

Hopefully there will be a slow steady stabilization of value and rents as a recovery moves forward. At this time there are a lot of questions and fewer good answers.

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