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What will our new “norm” look like? - by Steven Spangle

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This article is the result of an email from Steve Sousa, executive vice president MBREA based on an article of Tim Logan in the Boston Globe titled “Downtown’s surreal, empty scenes convey a haunting omen.”

The article and Steve’s questions related to the Boston market. The same issues impacting Boston are affecting the entire country. The question is what will our new “norm” look like?

There are any number of thoughts on the subject. However, everything is dependent on how long the COVID-19 virus lasts. Governments, both federal and states, have attempted to lessen the economic impact on the country and attempted to jump start opening business in an attempt to jump start a recovery. So far, while economically beneficial, they have failed to start a meaningful return to what was our norm.

The following discussion addresses possible changes that may result in a new norm for real estate.

The residential housing market has been surviving. Many people who at the beginning of the year anticipated selling decided to hold off once the virus exploded across the country. This has benefited the residential housing market by keeping the inventory lower in most markets.

As a result of the economy many owners and tenants have struggled with their mortgage and rent payments. The government stimulus package has helped but it has expired with no replacement in place at this time. Moratoriums on evictions and forecloses have helped to keep the inventory down but they are also expiring. Some governors have extended the time period. As these programs expire the number of properties for sale can be expected to increase putting downward pressure on the market. Eventually, as it has in prior down markets real estate values will bounce back and continue to grow.

The retail market, particularly small business owners, have been hit hard it. Many are on reduced hours and have permanently closed. Even large retailers like Macy and Sears have had financial problems resulting in lay offs and store closures. As major retailers shrink and leave some shopping centers their closures put even more financial pressure on smaller stores in a center.

Some retailers such as Amazon and Walmart have been making record profits because they already had an on-line presence and an established delivery system. Other retailers are seeing an advantage in developing on-line sales and a strong delivery system which will require fewer retail facilities. Retail landlords may be challenged to fill stores at present price levels for some time to come. Retailers in larger metropolitan markets such as Boston and New York should recover the quickest as workers and tourism return.

The office market has seen increased vacancy as businesses closed, shrank in size or missed rent payments. Many businesses developed work at home procedures. Some may find that these

programs have been effective and that they can reduce the amount of office space that they require. While some companies will probably continue to allow some employees to work at home it is likely many will eventually return to working in offices although may take some time.

The service sector has been extremely hard hit. Bars and restaurants were closed and hotels and motels had few customers. Some may be closed for good. The bars and restaurants re-opening are limited in the number of customers they can have. The numbers will be low grow until the virus reseeds. Even then their customer base must feel confident that they have enough disposable income for bars, restaurants and travel.

Eventually the economy will begin a return to some type of normality. It will take time and will not happen as quickly as some might imagine or hope for. It will happen although it might be a somewhat different normal than before the virus. However, as we have seen in the past, after a period of readjustment, the real estate market will settle into a period of steady growth.

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