



# nerej

## **Compression: Late summer musings - by Bill Pastuszek**

September 11, 2020 - Appraisal & Consulting



Bill Pastuszek  
Shepherd Associates

Late Summer Musings. Working remotely, trying to understand the current state of the country, world, real estate, and appraisal.

The pandemic's short-term effects have been dramatic, but not entirely what was expected. From what we see six months after the lockdown – the “pause” as NHLers are fond of saying – there has been swift evolution and compression in many areas. As history sometimes shows, change comes out of the cauldron – sometimes forced upon us, brutal, wrenching, and chaotic. Crises force us to not just think out of the box, but to act out of it.

Social patterns have changed. Much will be temporary, but there will be some more permanent outcomes that will make us change and rethink how we interact with one another.

The idea of compression is intriguing. Compression is defined as “reduction in volume, causing an increase in pressure.” Notes from my researches follow. Each concept has a real estate related example following.

Work. Pre-pandemic, work habits had been gradually evolving towards a less office-centric process. During this pandemic, what were expected to be short-term out-of-office work accommodations in fact created quite efficient remote working experiences across many professions and industries. For many workers and companies, the pandemic has solidified thinking that meaningful work can take place away from the office.

Q. What is the future of office space, then?

A. The long-term trend was that each worker used less office space. That trend, motivated in part by public health issues, is probably reversed.

Is CBD tower space obsolete? Probably not, but some space reconfigurations may need to happen before the question can be answered fully. In talking with brokers and managers, the real effects will only be fully apparent once lease deals – new and renewals – begin to be (re)negotiated. Nobody is sure, and those that are aren't saying what they really think.

Education. Some trends already evident have been hastened during the past six months. The conduct and delivery of education at all levels has been dramatically altered and, at many levels – including professional development and continuing education – probably permanently.

Q. How do these changes affect real estate and valuation?

A. There is a shakeout in progress in the child-care industry and, the longer the COVID environment persists, the more difficult will it be for smaller operators to stay in business. Public and private school operations have been and will continue to be fundamentally affected. Many private schools –

colleges in particular – are at risk if they continue to endure deficits due to changed enrollment revenues and higher costs of COVID adaptations.

Retail. The growth of online commerce during the pandemic's lockdown phase compressed years of projected growth into a few months. Will this become a permanent trend? (Shopping, after all, is one of the great national past times.) The U.S. Census Bureau indicated that U.S. e-commerce retail sales for the second quarter of 2020 was up 31.8% from the first quarter and 44.5% from the same period last year. Thus, as a share of total retail sales, e-commerce grew as much in three months as it had over the past five years combined. The UK, which had an even more strict lockdown, saw even higher e-commerce penetration.

Q. What is the future of bricks & mortar retail?

A. Already there is a rush (again, seems like an acceleration) to repurpose malls, shopping centers, and other retail properties. While brick and mortar retail will continue, it seems like everyone, from the local businesses to national operators, are figuring out alternative and/or additional marketing strategies – and doing it quickly. Restaurants and bars seem particularly vulnerable, especially as colder weather sets in and the outside dining solution recedes.

Housing. NAR report pending home sales are up 5.9% in July, based on pending contracts. The National Association of HomeBuilders notes that COVID-19 is causing a shift to suburban housing and that private residential construction spending is up 2% in July.

Q. Has housing been on a honeymoon due to low interest rates and COVID demand? Will foreclosures and rental evictions begin to become a problem as lower employment levels may persist during this Mid-Covid period and beyond?

A. Unclear. Will residential markets look as healthy six months from now? What happens when the exceptional becomes permanent?

Multifamily. For multifamily, the NMHC rent trackers found 92.1% of apartment households made a full or partial rent payment in August as compared to 93.3% that paid in July 2020. The CDC has put in place eviction moratoriums for public health purposes.

Q. What happens to multifamily when eviction bans and other props are removed?

A. The pat answer here is “people have to live somewhere.” Apartment rents have softened along with demand. There is concern about the back to school rental market in college-influenced communities. There is no clear consensus. More credible data is needed.

Commercial Real Estate. For the other sectors not touched upon, this deserves an article in itself. There are some market sectors – warehousing, self-storage - that are doing well in response to the compression trends, others currently not so well. Curious as to what the landscape looks like in January 2021. More on this to come.

Economy. Given the dramatic dip in output and a surprising rebound in many areas (housing), the pain may still lie ahead of us. Stimulus efforts have been spotty and may only have simply papered over many problems. Once the obvious stimuli are removed, how long can the Fed play the zero-interest game without creating massive problems down the road?

Let's revisit these trends three and six months from now. This might be a good time to "Expect the Unexpected."

Important Reading. You should read this article in the New York Times: Black Homeowners Face Discrimination in Appraisals (<https://www.nytimes.com/2020/08/25/realestate/blacks-minorities-appraisals-discrimination.html>). Stay curious, stay committed, and stay well. Enjoy the last bits of summer.

Bill Pastuszek, MAI, ASA, MRA, heads Shepherd Associates, Newton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540