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A little more than six months into... the new normal. So far, so good. - by Bill Pastuszek

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A little more than six months into...the new normal. So far, so good. A lot of counterintuitive results to be considered.

Economy. The economy is looking pretty tattered with but sentiment is surprisingly positive, depending of course on where you want to look and what you want to rely upon.

Interest Rates. The stated policy of long-terms rates near zero has undoubtedly had a stimulative effect and will continue to do so. Remember housing in the early 2000's, in the era of "irrational exuberance" and the eventual outcome.

Retail. America's retail industry has been blindsided in 2020, and the discomfort beginning retail bankruptcies and store closings are reaching historic levels. Major retailers and main street retailers. Maybe the upside is that when everything settles out, there will be great opportunities for consolidations. Doesn't help all those who already have packed it in. What further happens to food and beverage in weather-related markets.

Residential Markets. They continue to surprise. Case-Schiller shows positive trends, as do other national indexes. The Warren Group reports single family volume year-to-year between 2019 and 2020 as being about the same, with year to date volume about 8% lower in 2020 than in 2019. The headline reads: "Fierce competition among buyers pushes median single-family home price to new all-time high." Median prices, on the other hand, are up 8% across the state. Condo markets are showing lower volume and lower price increases, with median prices up 5.9%. Obviously, local market conditions make it difficult to use the data except in a broad sense, but it's counterintuitive, isn't it? Bad times overall, with good times for housing?

Disproportionate Social Effects. Absolutely. Those that can, are doing what they need to do to get buy. There are a lot of folks who can't and aren't getting along very well. Very pronounced

imbalances.

Commercial Pricing. Observers and participants report a “significant gap” in pricing between buyers and sellers. Sellers hold on to pre-pandemic pricing, while buyers are expecting discounts for greater market and property uncertainty. There are buyers actively in the market looking for distressed assets – retail, lodging, for example and motivated sellers. Even multi-family, with rents and occupancy affected in student markets, is looking at significant bid-ask gaps, discrepancy in pricing, however, sellers are starting to face the music on the market adjustment—particularly those under pressure to sell.

Timing the Fall. Contrary to recent real estate recessions (late 2000’s, for example) where there were cataclysmic financial shocks and frozen markets, the unraveling may take longer. Banks are better capitalized and have made better loans, so both borrowers and lenders may be willing to hang in over a longer period of time to see if, as the pandemic wanes some, particular commercial sectors bounce back. Markets may be in a type of lockjaw until the realities of the post-pandemic marketplace clearly manifest themselves.

The Data Trap. Real estate is investing. Successful, rational investing is a long game. Real estate is prone to short-term gyrations but moves slowly. It also is a long game. Those that put aside the weekly hysteria and rumor survive and thrive. There’s a lot of data and opinion about the data worth noting, and then putting aside. In times like these, even such an old reliable as the Conference Boards’ Consumer Confidence Index is prone to data anomalies.

Appraisers. A recent conversation with a lender who said all appraisers are doing right now is slapping a COVID warning label on their reports and then doing the same old thing, i.e., looking into the rearview mirror. I disagreed. Appraisers who are in the business of trying to emulate buyer and seller behaviors struggle sincerely every day trying to understand what is going on now and what may happen. Speculation about what may be, but may or may not happen, is a recipe for chaos and disaster.

The Takeaway. Real estate moves but slowly; when it moves, it moves in a manner that in retrospect seems perfectly logical. It’s just hard to see that movement until after it happens. We know what happened: that market behavior has to be interpreted in the lens of the present.

So, we are in a wait and see situation: Let’s see what happens. And, so far, so good.

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