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Real estate boom or bust: Flip sides of the covid coin - by Daniel Calano

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Recently, during a carefully planned and socially distant open porch wine tasting, someone mentioned how hot the real estate market was. They could see it in their neighborhood, and the evidence in the stock market showed how well builders and developers were doing. Young people were buying houses more than ever before, interest rates were the lowest historically, job growth was improving.

On the flip side, just that morning, I had read that a large real estate investor, Land and Building Co, was shorting residential and commercial real estate companies. So I asked the wine taster whether he had examined the other side, that is, areas where real estate was not so successful. He said no, that the news was simply full of success stories.

Both sides of this coin were accurate. Some markets were hot; some markets were not. No surprise here.... We know it depends on location, property type, marketplace, all factors that you readers would normally consider. This time around, however, there are more factors, more stratifications, more permutations and nuance, than ever before. Covid is obviously the most significant, and has modified and accelerated the different factors we normally consider....in ways we could not foresee. But, on top of Covid, we need to consider a divisive presidential election, bloated national debt, extreme climatic problems across the country, growing homelessness, and a frightening racial schism. All in all, it is causing a perfect storm, in the extreme, of winners and losers.

Regarding the types of real estate, it is well-known that brick and mortar retail, restaurants, hotels, vacation resorts, multi-family housing all are losing. On the flipside are winners such as digital retail, warehousing, stay-cations, cars and recreation vehicles, single-family residences. Regarding location, larger cities, dense populations, homelessness areas, overspent municipalities, resultant high tax areas, are losing. Suburbs and smaller cities are winning. States like California, Oregon, Washington were losing. The Carolinas, Florida, Texas and Utahs of the country are winning.

Blanket statements like “residential is hot” require detailed further explanation of the many factors that make it true as well as false. Blanket statements like “retail is dead”, require further explanation of the booming online shopping market. There are simply more, sometimes conflicting, factors in play here. Some factors are true across-the-board, allowing us to hold them as absolute, at least for the moment. For example, large cities have seen both office buildings and multifamily housing constructed in magnitudes much greater than past history. However, while millennial’s first gravitated to cities, as M’s have gotten older, there has already been some migration to suburbs for larger houses and more school options. As a result, there was already an ongoing question of oversupply. Adding in the reality of Covid with other urban issues mentioned, we can probably count on a decreasing demand in cities for a while.

Real estate people and investors are beginning to pull back. Some are shorting related companies. Others are starting distress debt funds. They are ahead of the game. This is not a normal up or down, boom or bust marketplace. It is unprecedented, caused by a pandemic that may take considerable time to resolve. The prudent real estate investor is both considering the current potential impacts, as well as knowing what cannot yet be known. The less prudent will have to scramble, dealing with a more unplanned, uncertain business future.

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