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The COVID world has reshaped how work is done and how the workspaces are now viewed - by Bill Pastuszek

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Appraisers concentrate on the economic analysis of real property through the lenses of the four great external forces: Governmental, economic, social, and environmental. They consider the four characteristics that are required to establish value in real estate (and many other assets): Demand, utility, scarcity, and transferability. Appraisers also consider physical forces, including environmental, topography, water, location, and climate effects.

Real estate has as one of its essential characteristics, fixity of location (I like the term immobillier). Real estate doesn't move but the environment around it is constantly shifting.

Valuation (and economic behavior) is most understandable – and probably most rational – under conditions of stability. Certainty is always a good thing and guides human behaviors of many sorts, including real estate investing.

Do perspectives change when certainty is...less certain? Think back to January 2020 and economic perspectives then and now.

From a look back at forecasts of what to expect in 2020, here's a sampling. A major brokerage firm said the following in the year's first quarter: "2020 could be a pivotal year for the U.S. commercial real estate industry" and goes on to say there is some risk of oversupply in industrial and Class A multi-family. It noted that demand for office space in 2020 will remain strong and absorption gains will be limited in industrial and logistics. Another survey noted deceleration trends and increasing tenant leverage in most sectors.

The point of these quotes is to underscore how dramatically expectation have been affected in a reasonably short period of time. Further, it is informative to see how the COVID world has reshaped how work is done and how the workspaces are now viewed.

Just a quarter later, another brokerage's headline read: "2020 Outlook – It Was All Looking So Good – Momentum was picking up for 2020 but fears of a global slowdown from COVID-19 have now taken hold."

Point to Consider. These forecasts are mentioned not because they were wrong. They accurately reflected thinking at the time they were created, much like the effective date of appraisals.

With these thoughts in mind, let's take a broad look at the office sector. A very interesting study, just published by Cushman and Wakefield, talks about fundamental shifts in the office section, noting "The global pandemic has accelerated an evolution of the workplace and forced businesses to reconsider when and how to best use the office in the future, posing the ultimate question: what is the purpose of place?"

The study goes on to say. "History suggests there are four main reasons for organizations to bother to be in offices at all." These are: "Social needs for the employees that reinforce the culture of the organization. This includes personal social needs of employees," including such factors as collaboration and mentoring; productive environments for office workers; capital requirements unique to the office space and location; and management requirements for centralized command and control. The accelerated trends – currently undergoing daily refinement – include office-based work, remote work, and subsets of these two trends. Full remote work is "work from anywhere. Flexible, hybrid ecosystems balance the two within an organization and among workers. Clearly worker function, company operations, and the specific workplace history and culture are factors in an organization's use of office space."

The net result to date – and the market will decide ultimately – is a shift in the nature of office space. Likely gone are the wide open collaborative Millennial environments that seemed so edgy until recently. Accommodations will be made and some return to more traditional floorplans are likely to result to allow for proper distancing. The expansion of private home-based environments will continue, and will have ramifications for both detached and attached housing focusing on new spaces, reconfiguration, and expansion. Trends already in place will continue.

Commercial real estate is undergoing dramatic change, one as consequential as any in its history. Buildings and the spaces within them are looked at differently than they were just a few months ago. There are ramifications for appraisers as result of this change.

As a result of COVID, fewer traditional – interior and exterior – inspections have been made with workarounds created to minimize frequency, duration, and proximity of contacts. This has also had the effect of making clients and appraisers more mindful about the collection of subject property information. The trend is likely to continue.

But appraisers tend to have a strong sense of location and place. The "personal" inspection that is part of many – if not, most – valuation assignments is integral to the process. Despite attempts to remove, modify, or transfer the inspection requirement, it is essential for developing a context – a feel – that informs the overall process and helps meld together the qualitative and quantitative

aspects of appraisal.

Location is still key. How it is used, and how appraisers will look at location—literally, and in terms of appraisal assignment context and conclusions—is another change COVID is bringing.

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