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Elements re-shaping The value of real estate - by Marc Nadeau

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A year of change: The year 2020 brought with it COVID, record low interest rates, a record increase in e-market commerce and federal and state moratoriums on evictions. These elements and more are proving to re-shape the real estate landscape.

Residential Real Estate

What had been a slow and lackluster few years for the Connecticut real estate market reversed itself, but not before a number of elements were set in motion. The year started out with what is typically a slow-moving winter market that usually picks up come spring...as typically, more people plan their move during the warmer months.

March, which typically “comes in like a lion and goes out like a lamb” (at least in New England), turned into a proverbial wall that we hit. COVID swooped in, sporting events were cancelled, restaurants closed, retail establishments closed and some soon failed. Equity markets started to tank and stock market suffered its single largest point loss in on March 9th, only to be surpassed by an even larger loss on March 16th.

The market was now at a standstill, hardly anyone was committing to buying a home or renting an apartment for that matter. New York City soon became the epicenter for the corona virus and between March 1st and May the exodus from the city began. Based upon cellphone records analyzed by the New York Times an estimated 420,000 city dwellers left the city, seeking a safer climate. They migrated to Connecticut, Upstate New York and Florida among other places deemed to be safer. Between May and November Connecticut has seen an explosion of buyers, often with these buyers paying at or above the asking prices, pushing the value of residential real estate in an upward direction.

Feeding into the equation was the decline in long-term mortgage rates, bringing about the lowest

mortgage rates in decades.

New Attitudes

and New Buyers

Demographic studies and surveys most recently have shown a shift in the typical buyer profile. As many of the Millennials that have stood on the real estate sidelines for years, just happy to just rent an apartment, they have now been entering the market in a material way for the first time, contributing to lesser inventory and rising prices.

This Appraiser's View of

the Residential Market

The market for residential real estate in Connecticut has already started to slow, with this likely being a sign that the migration to the area is also slowing. Markets for city locations vs. the suburbs has ebbed and flowed over the past few decades. Of recent years, the trend has been to move closer to cities and town centers with buyers and renters alike wanting to be closer to convenience and services. It is this appraiser's opinion many of the people who fled New York City this past spring will be returning to the city, as once a city dweller, typically always a city dweller. In fact, the market already seems to be undergoing a reversal with fewer sales contracts in the suburban areas but an increase in signed contracts in multiple New York Boroughs.

The Commercial

and Investment Markets

The commercial market is an entirely different animal. As residential dwellers fled the cities so did the tenants of many office buildings and retail spaces. Many office workers found themselves working from home, with many liking the convenience of it. This migration may signal more of a permanent trend in the office market, as working from home has become a more viable option for many.

The retail real estate sector has long been suffering as more and more commerce is being conducted online. COVID could be the final nail in the coffin for the brick-and-mortar stores. The year 2020 saw record bankruptcy filings of retailers with the likes of Lord & Taylor, J.C. Penny, Pier 1, J Crew, Neiman Marcus and the greeting card purveyor, Papyrus all filing for bankruptcy. Some may never emerge from the bankruptcy umbrella.

Owners and developers may be forced to re-purpose many of the now vacant spaces. Some owners have already started on the track to convert their retail spaces to other uses. For example, the owners of the Connecticut Post Mall in Milford have filed an application with planning and zoning to convert some of their vacant space to apartments.

Apartment Properties

Although the best performing sector in the real estate market in recent years, the year of COVID has seen thousands upon thousands of people lose their jobs, many of whom live in apartments. Many of those properties are now starting to under-perform as people in some instances are not paying their rent and landlords have had no recourse over the past nine months, as many courts are closed and there has been a moratorium on evictions during the same time period.

It is expected that there will be adjustments to what has been the hottest market for investors. Those adjustments will be reflected by a decrease in operating income, an increase in capitalization rates or both.

Only time will tell how the general population along with the market sectors will make it through the COVID period. Let's hope for the best.

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