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Uncertainty Faced - Where are we Now? - by Bill Pastuszek

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We have spent more than a year worrying about contact with others like us. Our public places have not been full of humans as intended. Our office buildings and stores are not operating to capacity. Retail and lodging markets are still in flux. Many of us venture from our homes carefully while many others who don’t have the luxury of staying home, having no choice but to work or being essential workers.

But things have evolved. We have adapted. Our sports had to adjust. Live music, having gone online, will return.

I looked back to an article of mine and notes taken at the beginning of the COVID-19 ordeal. Nothing but uncertainty, with a hint that what we were to experience was probably temporary but, for how long and how bad?

As real estate analysts, we count on measuring and understanding human behavior as shown primarily through the market evidence of transactional data An underlying rational process underpins appraisal even though markets are not necessarily rational. Appraisers and other analysts don’t make markets; the appraisal process is rooted in understanding the behavior of market participants.

COVID-19 helped redefine what an appraised value really means. There were many discussions during the shutdown of what the effective date really means. Some argued that without being able to reliable forecast the future, it made our values – which can be defined as the present value of future benefits, whether they are based on income or amenities – unreliable and meaningless. Others argued that any market value opinion can be subject to the same accusation.

The successful argument that emerged was that uncertainty is measured by the particular market with which the asset is associated: it could be a single family home or an office building with 100 tenants. COVID-19 was a great challenge to real estate – and real estate was not unique in being thus challenged – but markets would respond. A great deal of informed research and analysis comparing COVID-19 to other great societal and economic disasters such as The Great Recession, 911, Hurricane Katrina took place. Mostly, the conclusions reached indicated that each of these signal dislocations possessed their own dynamic and recoveries took place in integral ways.

No one expected markets to begin to recover and adapt as quickly as they did. Residential markets adapted beyond all reasonable expectations. Resort areas enjoyed surprisingly strong summers. Transactional activity, or the lack thereof, in various sectors, began to make sense out of uncertainty.

During the worst of it, the stock market dropped and dropped. Then it rallied. It rallied beyond expectations. Wasn’t that the height of irrationality?

Our values were not less reliable; if correctly developed, they reflected the prevailing attitudes of market uncertainty, uncertainty that appraisers are well-qualified to measure.

We are not done with COVID-19 and its effects. Separating out informed opinions from the uninformed is not much different today than it was before COVID-19.

Overreaction to short-term fluctuations is not the way of real estate. Value is expressed as a point in time but buyers and sellers tend to look over long horizons; that’s a good thing. During this difficult period, appraisers were absolutely crucial in bring calm to markets that were in a high state of agitation and uncertainty. These are still trying times but the appraisal profession learned some very positive lessons but not overreacting to chaotic conditions.

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