One year later and the real estate market has defied expectations and flourished - by David Widmann

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David Widmann

We opened our appraisal forecast last year with “Appraisal experts foresee a strong 2020 for the appraisal industry”. Two weeks later the COVID-19 virus “in essence” shut down the world! I remember adding in a COVID paragraph after the final draft had been approved due to the aggressive nature of the topic.

One year later and the real estate market has defied expectations and flourished despite many other industries struggling. Travel, entertainment and the food service industries have been hit the hardest. There have been no plays, concerts, or any live entertainment. Restaurants have had to change with restrictions to in-house dining. They have also “ramped-up” take-out and utilized delivery services such as Door-Dash or Uber-Eats. The warmer months saw Rhode Island restaurants opening up outside dining which sustained them through the summer/early fall. Now on the brink of spring, we expect to see a similar boom that will help these restaurants adapt their business going forward and through the summer.

Last year there was an increase in demand for evaluation appraisals. In some states evaluations are not required to be completed by a state licensed or state certified appraiser or to comply with USPAP. However, in Rhode Island, one must be a state licensed/certified appraiser to perform them. There was also an increase in desktop appraisals which are appraisals that are completed without a physical inspection for both residential and commercial valuations. This has remained consistent during the Pandemic. There was an increase in “Drive-By” appraisals (aka exterior-only appraisals) where the appraiser assesses only the exterior of the property to determine the property’s value. Once safety procedures were more defined we were able to conduct full inspections using masks, social distancing and hand sanitizer. There was also an increase in estate appraisals due to a spike in health complications & deaths.

Interest rates have continued to stay low which has driven the sales and refinancing of all property categories. Interest rates, in general, remain low and the 30-year fixed rate mortgage is 3.180% which is less than what it was at the start of the Pandemic of 3.29%. The previous year, mortgage rates were hovering in the mid-4% range after almost touching 5% at the end of 2018. With these low mortgage rates comes a boom in sales and refinancing activity and the need for appraisals.

The median listing price of residential properties in the U.S. grew 13.3% in 2020 and according to the National Association of Realtors, the median existing-single family residential price for all housing types in November 2020 was $310,800. This is a 14.6% jump from the year prior. Despite the rise in process, home sales hit a 15-year high in November of 6.69 million units. New homes hit 841,000 units in the same month. This much needed increase in building is hopeful, but it's not enough. Restrictions on home-building supplies, including heavy tariffs on lumber, need to be lifted to ease the cost of building homes.

Residential demand is high as millions of people have worked from home in the last year. This has created a demand for more "forever" homes. Inventory is low which has driven prices up to the point where homes are selling for tens of thousands of dollars over asking price. It is the appraiser's job to understand the impacts of these increases in sales price and provide an accurate opinion of value. The cost of construction has increased so much that it almost negates the increase in demand due to the prohibitive cost to build new. The hope is that housing supply will eventually meet demand in the next few years. As COVID diminishes with widespread vaccinations, more homes should appear on the market. This balance will steady the upward climb of home prices and will make homes more affordable for first-time buyers.

According to Jerome Powell, the chair of the Federal Reserve in his interview on 60 Minutes on April 11, 2021, "What we're seeing now is really an economy that seems to be at an inflection point. And that's because of widespread vaccination and strong fiscal support, strong monetary policy support. We feel like we're at a place where the economy's about to start growing much more quickly and job creation coming in much more quickly. So, the principal risk to our economy right now really is that the disease would spread again. A lot of private sector forecasters see strong growth and strong job creation starting right now. So really, the outlook has brightened substantially. Private sector forecasters are saying or what forecasters who sit around this table who are on the Federal Open Market Committee, our rate setting committee, what they're forecasting is growth for this year in the range of 6% or 7%, which would be the highest level in 30 years. Or even maybe a little bit higher. And forecasting unemployment to move down substantially from 6%, where it is now, maybe to between 4% and 5%."

By all accounts tax refunds, stimulus checks and PPP loans have sustained, if not outright kept alive, businesses and their employees during this pandemic. Over the course of the last year, we saw unemployment below 4% at the beginning of February 2020 and go up to over 14% one month later.

The rate has come down to 6% in March of 2021. We are now starting to see some of the impacts of the additional income people have been receiving. Businesses are struggling to find help with many people making comparable income on unemployment.

Most office space stood empty in 2020. The lease transactions were dominantly renewals that were signed for shorter terms than the market previously called for. It will be interesting to see this effect on appraisals going forward. Will vacancy remain high? If so, this will affect the NOI of properties and decrease values. Will the overall demand go down for office space, and therefore the lease rates? Companies have adjusted to work-from-home-policies and office demand could be permanently cut because of the shift to work remote. All of these issues will need to be addressed in appraising going forward. The industrial market is in high demand with limited inventory in the Rhode Island market. We are seeing the opposite effect of the office industry with industrial sale prices increasing, as well as rental rates as there is such a high demand in the market for these spaces.

The possibility of an increase in foreclosure appraisals looms for 2021. Low interest rates, low inventory, and COVID vaccine, adds security to the appraisal load. It is an obvious prediction that appraisers will stay busy in 2021. While some appraisals have adapted to the pandemic changes such as the hybrid and desktop appraisals, other appraisers kept their routine methods (albeit with masks and hand sanitizer). The Federal Housing Finance Agency is considering overhauling the appraisal process. Appraisers face another year where regulations might change. With a record-breaking market and the changing regulations & client comfort levels, appraisers have a busy 2021-2022 ahead of them.

David Widmann is vice president of Sweeney Real Estate & Appraisal, Providence, R.I.