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Residential market influences – many contributing elements - by Marc Nadeau

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The residential market in New England has seen perhaps the highest level of both activity and increases in prices in decades. For those of us who have been around long enough remember, there was the precipitous rise in real estate prices in the late 1980s and then the crash in the early 1990s. This particular market was wrought with speculation, fraud and a lack of oversight on the part of banks and federal regulators.

At the time I personally was very active in development and renovation work in the New Haven as well as working as an appraiser. I can remember a dentist who decided he would buy a vacant parcel of land that was approved for a condominium project on the Quinnipiac River. The other part of his idea was to hire a contractor to oversee and develop the project for him, let's just say that the idea didn't work out so well.

Then there was the day when my phone rang and it was the FBI. They wanted to know about a small office building that I had recently sold to some fellow for \$500,000. That fellow somehow went to a bank with a fake contract and appraisal showing that he was purchasing the property for \$650,000. That same fellow had perpetrated a number of sham purchases, borrowed money from banks and pocketed whatever difference he could muster between the actual purchase price and the supposed purchase price. Things didn't end well for him; he went to jail.

The mid 2000s saw among other things a race to suburbia wherein there was without question a want for a bigger house. Developers in many cases responded by simply making the envelope bigger, without much attention to form, function or detail. Many of the buyers who stretched their wallets to purchase these homes often did so for mere sake of a larger home, not being able to afford the furniture to fill the space. Back in the time frame of 2003 to 2007, I appraised countless homes where I would encounter a great many of these homes that had little or no furnishings. I once asked out of curiosity where their furniture was, with the response being that they were "saving up" for the furniture. This particular market ended in a disastrous fashion where people borrowed increasingly and spent beyond their means (a British friend once described the act as buying on "never, never.") When I looked at him inquisitively, he responded "you know, in the states you call it credit, in Britain we call it 'never, never,' because you never actually pay for it, as you're always

paying for it.” That chapter ended with the financial meltdown that occurred in 2008, when a great many banks realized that they were under-collateralized. And as my British friend would say “it collapsed like a flan in a cupboard.” Another expression that seems to be exclusive to the Brits.

Today's Market: Today, there is a multitude of factors that seem to be influencing the residential market. Low interest rates, migration to certain areas, an expanded buyers' market and of course COVID, which has driven many a city-dweller to the country and suburban locations.

Markets in New England are showing appreciation rates of approximately 1% to 1.5% monthly over the past year. This trend clearly cannot not sustain the pace and in the opinion of this appraiser will likely be reverse to some extent.

As of this month, the demand for both existing and new construction remains near an all-time high. Little inventory exists along the Shoreline in Connecticut and builder's have had their share of issues with a precipitous rise the cost of construction materials and lack of skilled labor. Supply chains for lumber and related materials all but shut down during the onset of COVID, workers migrated to other areas and production is only now being brought back up to capacity. The product of the rise in the cost of materials and labor is making some construction, and renovations for that matter less than feasible.

Summary: As of this writing, lumber prices are reportedly coming down ever so slightly, reflective of ramped-up production. The high prices for construction materials, labor and resultingly, real estate will likely be sustained for over the next year or so. For those wanting to build new or embark on an extensive home renovation, I would say to wait a bit, prices will come down and make those prospective projects all the more feasible.

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