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NH CIBOR president's message: Does the deal make money or not? - by Scott Forte

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Scott Forte

Could a slow down in the real estate market be coming? While there is a lot of chatter among people and real estate agents alike, here are some data points from local and national sources to help us understand the current status of the real estate market.

According to Black Knight, as of an Aug 1st 2022 report,

- June had the greatest single-month slowdown on record since at least the early 1970s
- 25% of major markets saw home price growth rates slow by three percentage points
- Inventory is still 54% below 2017-2019 levels
- Facing a national shortage of 716K listings, it would take more than a year of such record increases for inventory levels to fully normalize

According to NAR's June 2022 report

- Closed sales are down almost 15% compared to 2021
- Median sale price is up almost 16% compared to 2021 (condos at +20%)

According to the US Department of Housing and Urban Development for June 2022

- Sales of existing homes declined for the fourth consecutive month.
- New single-family home construction fell to its slowest pace since August 2020; -9.2%
- Foreclosures Started 22,100 vs 5,900 a year ago.
- Foreclosures Completed 2,900 vs 1,300 a year ago

What does that mean for real estate developers: Inventory is still low, demand is still high. Basic economics will tell us that means, for now, prices may not increase as fast as they have been over the past two years, but they may start to level off. Until demand and supply equalize, prices should not drop. However, the commercial real estate market differs from the residential real estate market in one major way: In the commercial market, buyers do not buy out of necessity or emotion. Investors see black and white. Does the deal make money or not? With interest rates rising, investors are looking for higher and higher CAP rates when making investment decisions. As CAP rates increase, prices must decrease. $CAP\ Rate = NOI / Purchase\ Price$.

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Scott Forte is the 2022 president of the NH Commercial Investment Board of Realtors, Bedford and is a commercial Realtor with Century 21 North East, Salem, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540