



CELEBRATING
55 YEARS

nerej

Summertime: Is the living easy? - by Bill Pastuszek

August 12, 2022 - Appraisal & Consulting



Bill Pastuszek

It's the middle of the summer. A bit of a drought here in Mass. Some heat in the last couple of weeks but considering that one could have been in Paris in July or Phoenix almost any time, it hasn't been too bad.

A quick review of points to consider when thinking about real estate follows. The subject matter covers 1-4 family markets first, then commercial, and then the general economy.

Housing. The cost and availability of financing drives residential real estate. The cost and availability of money drives an economy and real estate. Consider what has happened in residential markets. Rates went up, the markets went south. In almost a moment. The refinancing market stopped on a dime; the sales market not so quickly. Much touchier markets residentially than commercially. Will we begin to see a slide in bid-asking prices. Are marketing times increasing? Has the great Pandemic Boom run its course? The TD Bank forecast (search for TD Bank Canadian Provincial Housing Market) for the Canadian housing market is concerning: And what is going on with real estate in China? More seriously, what do these changed conditions bode for projects not yet in the pipeline? Are lenders going to get a lot more cautious? Will the development spigot dribble to a stop? Will developers be finding end user buyers in low supply?

The National Association of Homebuilders notes that "builder confidence plunged in July as high inflation and increased interest rates stalled the housing market by dramatically slowing sales and buyer traffic." The report cites higher interest rates, building materials bottlenecks and increasing construction costs as factors that tamped down the temperature on the single-family housing market. Affordability is an issue. The report notes a decrease in single-family starts and permits fell that was the lowest since mid-2020. The Northeast experienced a 5.1% decrease.

Commercial Real Estate (broadly). Financing drives commercial real estate but in a different way. Most analysts haven't seen any major shifts in cap rates yet as buyer psychology is such that rising, modest appreciation, and more conservative offers will outweigh the negative of higher debt service.

Higher rates, inflation on materials and labor, and generally dour expectations may put a crimp in seller's expectations, may keep buyers on the sidelines, and make lenders wonder about whether debt coverage is substantial enough. Some recovered sectors may once again be at risk. The lodging sector, which came roaring back from the precipice, may be one that the pundits are advising investors - buyers and lenders - not to overload on. Even the sacred multi-family sector may end up being overpriced in some outlying markets. The word is not quite on the office sector: short-term views abound. On the other hand, main street properties are doing well. Again, investors tend to reach into outlying markets for deals in this environment and those deals might not look so good in a general market correction.

Analysts—appraisers, underwriters, etc.—need to be aware of leading edge indicators and watch for changes that may signal major market shifts. Using dated sales, cap rates, and expense ratios may be just another way of history repeating itself.

The Economy. A financially minded friend (with much better understanding of the economy than me), said in a recent conversation: "If inflation is indeed as bad for life on the planet as it is widely reported to be, especially after the awful 9.1% June reading: why isn't the dollar collapsing? Further, why, a year into this, is gold still barely moving?" Inflation can be defined as a deterioration in the purchasing power of the dollar; the dollar is at a 20-year high. The euro is profoundly weak and has fallen below equality with the dollar for the first time since 2002. (The Canadian dollar is at \$.78.)

According to the St. Louis Fed, the bond market now expects the CPI to run at 2.5% a year for the next five years: inflationary....?

He thinks a fundamental problem is the economy is still suffering from too much monetary stimulus churning around the system. According to at least some economists, strong dollars mean they are in demand. Despite major imbalances that need to be made right in the US economy, the question is as not much, what bad things are still to happen? - but "how much of what's going to happen isn't already built into pricing expectations?"

Europe and the rest of the world. The US can work itself out of its problems, the rest of the world not so much. And oil (and natural gas) is a lever that nations can use on other nations. (All that plentiful and cheap energy from the east was just too good to resist by the Euro Zone. Now all that is coming home!) Unfortunately, we are dependent on the rest of the world so there problem can become ours.

The Red Sox are stumbling in their division. They would be looking competitive in the Central Division. You really know it's that time of the summer when the sports channels are bringing us news from preseason pro football workouts. Go Pats; hope they don't stumble this season.

Enjoy the next few weeks. Back to school is imminent. Enjoy the city, beach, mountains, lakes, or the deck/porch. Some steady soaking rain wouldn't be bad.

Bill Pastuszek, MAI, ASA, MRA heads Shepherd Associates LLC, Needham, Mass.

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