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Changing markets, changing perspectives - by Bill Pastuszek

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Whether it's real estate or automotive markets, understanding the various submarkets that make up the composite larger markets and understanding the larger market and its effect on those submarkets is key. Markets don't work in lockstep.

Much is made of the distress in office markets, but the unpleasantness isn't the same across the board. Distinctions need to be drawn between those truly distressed markets – CBD, anyone? – and those that are only more mildly distressed. Inconsistent application of trends in one market to another market may result in drawing incorrect conclusions. Multi-family and industrial markets areas are also often viewed monolithically. The many components that make up those huge and varied property sectors don't move in lockstep.

Let's consider the divide between "investment" markets and "general" markets. There's a wealth of well-organized information published on investment markets. These national – if not international - markets are highly transparent and closely scrutinized. Local markets are less visible, and the data is harder to aggregate.

Looking at a popular and credible survey of investment grade commercial sales and resales, price declines are obvious to reasonably observant analysts. The trend is in line with the general wisdom of the market. Some look at the trend frantically, concluding that the end of the world (RE) is imminent.

On the other hand, looking at the non-investment side of the market, the world looks like it may be around for a bit longer, albeit limping some.

To take this analysis a bit further, investment level multi-family declines are much steeper than in the smaller market segments. Looking at local markets through the lens of national markets can result in distorted viewpoints. Care needs to be taken to interpret data in context.

In any market, immediately competing supply as well as future supply has to be factored into market analysis. In some markets, the real pain may be felt when the project that looked like a pretty good idea last year is not competing in an environment of lower tenant demand, higher interest rates, and less investor interest. Negative absorption in the short term is normal but becomes of much greater concern when a lot of inventory begins to drag anchor.

Markets are in constant flux and while real estate is a long-term investment, markets change quickly at times. These turning points seem only obvious in retrospect. Relying on timely data and interpreting it correctly in real time is crucial in order to be able read trends affecting investor behavior.

Some distressed property transactions have been well publicized. There are a lot more out there that are flying below the radar.

The higher interest rate environment has created much activity negotiations, write downs, and distressed property activity. Expect to see more distressed properties that will create doubt about investment behavior.

To attempt to understand markets is to seek to understand investor behavior. It's easy (and popular) to talk about THE MARKET (all caps), but THE MARKET is composed of the actions of many participants within many sub -markets that don't often operate completely in sync.

Gaining understanding about how distinct markets function in the context of the overall – generalized – market is the difference between a skilled analyst and a generalist. In conditions of change, a broad-brush approach will yield generalizations and it's dangerous to draw conclusion based on generalizations.

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