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## **The resilience of markets - by William Pastuszek Jr.**

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In an era of uncertainty – uncertainty and unpredictability taken to new heights – real estate markets find ways to seek rational paths towards solutions under conditions of uncertainty. It's a truism in investment behavior that markets can adapt to wide and disconcerting gyrations in economic and socio-political arenas. Market behavior is challenged when it becomes difficult if not impossible to understand what the conditions of uncertainty are.

What should those involved in analyzing real estate markets - appraisers, analysts, lenders, and investors - make of these changes? It's never easy meeting the challenge of understanding buyer and seller behavior in the best of times. In this chaotic environment creating rapid and non-linear change, it's even more difficult. But there is hope. Read on.

Overreaction. The overall reaction to the imposition of tariffs in the stock market created a climate of correction. Any number of investors probably bailed out and took losses. On the other hand, there was significant buying during the fall. A month later, market indicators have bounced back. Those investors who did nothing were vindicated.

At the beginning of the pandemic in a roundtable with lenders, everyone was utterly panicked about what was going to happen. "What should we do?" was the refrain. Several of us sat back and said, "Do nothing. Don't panic. This will all work out in the short term better than you can expect." In the short term, it did. The longer term effects are still dogging certain market sectors.

In the current environment, residential markets show less buyer interest, some resistance to pricing levels, and some deals falling apart due to buy-seller concerns about the economy, job losses, and other uncertainties. Some buyers probably got some good deals out there in an uncertain environment.

Builders raise concerns about uncertainties about material costs and availability and the labor supply. With high land costs and tight supply, there is much concern about the ability to provide housing at a reasonable price.

Interest Rates. Markets adjust. Recent commercial activity suggests that market participants continue to adjust to current interest rates and scenario as the Fed has indicated that rates will be at these levels for a while longer.

Markets Adjust. As noted earlier, reactions in the short terms work against the rationality of the longer horizons that investors operate in. Short-term reactions may include tightening operations and making small, targeted changes to factors that can be controlled. Overreacting to factors that can't be controlled creates less than satisfactory long-term results.

Real Estate Pivots. Real estate tends to move slowly. That's the nature of immobile assets. A couple of examples:

Affordable housing creation has become a higher priority by government as well as investors. While the solution is not easy and the need is unlikely to be fully satisfied, government has created opportunity for the private sector to meet demand. In a high cost market such as the Northeast, opportunities exist but feasibility is an issue. Government intrusion and NIMBYism has created additional challenges for investment in this market sector.

In the CBD office sector, investors have been able to repurpose older buildings into residential uses. It took a while, and not all troubled buildings make good conversion opportunities, but markets have reacted.

The Challenge of Market Analysis vs. Marketability Analysis. Macro trends in terms of supply and demand are useful and are a legitimate part of market analysis. More critical is marketability analysis, defined by the Dictionary of RE Appraisal as “the study of how a specific property is expected to perform in a specific market. A marketability ... analysis expands on a market analysis by addressing a specific property.” In this uncertain market, appraisers and other analysts need to perform deeper marketability analysis and drill down deep enough to understand property specific issues.

Appraisal quality is of paramount importance under current conditions of uncertainty. Understanding investor thinking is critical to getting from out under the short-term day-to-day chatter and understanding the longer-term goals of real estate investing. Interesting times out there. To paraphrase a famous quote, “The greatest uncertainty is uncertainty itself.” And “change is constant, so get over it and get on with it.” Markets are resilient and adapt, survive and thrive.

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