



nerej

A year in review - Is it over yet? Take on '09 with grit, resolution, and clear headedness

January 07, 2009 - Appraisal & Consulting

2008 was the year that didn't want to end: it was filled with exceedingly large amounts of bad news. Let's make an effort to stay positive and try to put a good face on 2009. But first, let's be real. This year will be challenging, to be perfectly euphemistic. Major economic challenges are certainly not behind us. Things are quite likely to get worse before they get better, and there is more bad news to absorb.

This past year is when everyone began to understand the concept of risk in a visceral and immediate way. In income property appraisal, the concept of risk is central and students and instructors alike try to understand how risk operates in markets via activity levels and prices paid for properties and rates associated with those prices. Risk has hit home in a very big wave, everywhere. We are experiencing an unprecedented time of the consequences of massive imprudence, recklessness, fraud, and stupidity. We observe and analyze, but we feel the hurt of the markets.

Current circumstances make it challenging for appraisers and analysts in interpreting activity under conditions of uncertainty. Income property markets have been rocked by financing problems, low sales volume, and severe uncertainty about the future. Many asset classes are teetering on the precipice's edge.

Financing is the wildcard key. The "bailout" gave relief to lenders but failed somehow to encourage lending it out. Wasn't that part of the point? New England markets have been luckier than others with local financing sources willing to lend real estate money.

Residential markets should begin to some stabilization of the downward trend. However, the misery will continue. There's a lot to unravel. Homeowners need relief and lenders and investors need to recover from the damage done. Encouraging signs include more manageable inventories and some price stability in many markets, but not in all.

Let's look at some other sectors. With consumers not buying, retail is the midst of a pull back. The sector looks mostly overpriced, overbuilt, and will need time to work out of the hole it dug itself during the expansion. Given the number of retailers on the ropes and the space overhang, the prognosis is not bright either nationally or locally.

Office markets are tied to jobs. Unemployment grows, vacancy balloons and rents sag. Less overbuilt than high growth markets, the New England area is luckier. Expect higher cap rates and plenty of space give backs and tenant deal shopping.

Lodging markets are adjusting to a period overexpansion, fueled by easy financing and growth for its own sake. This includes Boston.

Development markets won't begin to see improvement until mistimed and ill-conceived projects get

worked out, sold, reconfigured, re-permitted, and repositioned. Certainly, there are projects performing reasonably. So, the news is not uniformly bad, just mostly. Local markets, by comparison, are better off than others severely overbuilt.

Owner occupied markets/smaller investor markets showed strength even after residential markets collapsed. Relying strongly on housing related businesses such as construction, brokerage, and home-related activities; with inevitable exceptions, these markets trend sideways/downward.

The popular wisdom sense is that a commercial real estate blow up like that of the early 1990's RTC/RECOLL era won't happen. However, beware collective wisdom and how it's lead us to the current cataclysm...However, even best case, the process won't be painless. Many investors, owners, and lenders will be taking major hits. Alternatively, if some further nasty surprises arrive, things would get worse, and all bets are off.

Prospects don't look great based on this whirlwind tour. However, pieces are in place for solutions to begin to work. With the financing ice storm slowly resolving, markets likely will begin to function more "normally" and the long overdue retrenchment will run its painful course. Deleveraging is difficult stuff. If the cures don't take, we'll be in really uncharted waters.

So, what is good? Rates are down and refinancing activity has picked up which is good news for residential appraisers. The downside is that many homeowners lack sufficient equity and appraisers once again will be the bearers of bad news.

Many housing experts fondly hope that the new administration will be effective in providing relief for homeowners to allow them to refinance into saner mortgage arrangements. It is further the hope that those seeking credit will get access that the bailout has not yet provided.

What else is good? Many appraisers are feeling needed again. Many client groups need to know what appraisers think. After minimizing the contributions of appraisers, there is a trend back. Too bad nobody thought of this sooner.

The first version of the Home Valuation Code of Conduct (HVCC) did not prevail. The second version is out and while better, still misses some obvious points. More on this in further columns, to be sure.

Take on 2009 with grit, resolution, and clear headedness. The despair out there is real but is also pushed along a bit by the media. The easy way out is to believe that the sky is falling. Better to make personal and professional adjustment. It's not 2004 anymore. As much as you may yearn for the good old days, it's not happening and you're not in Kansas.

William Pastuszek, MAI, SRA is principal of Shepherd Associates, Newton Mass.

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