

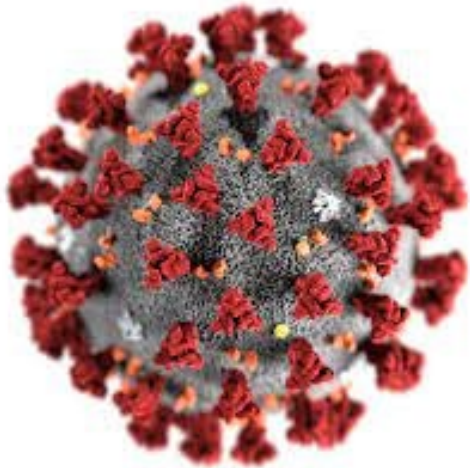


**APPRAISING DURING THE COVID  
PANDEMIC AND THE EFFECTS OF  
THE ECONOMIC SHUTDOWN ON  
THE REAL ESTATE MARKETS.**

**KEVIN D. ANGEL, MAI**

# COVID IMPACTS

1. Appraisal practice
2. Real Estate Markets
3. Future / “New Normal”



# Essential Workers

- Real Estate Appraisers
- Real Estate Brokers
- Acquisition Agents
- Relo Agents
- ROW Professionals

# Safety Measures

- Face masks
- Physical Distancing
- Less in-person meetings
- Zoom / Microsoft Teams



# Certified Letters

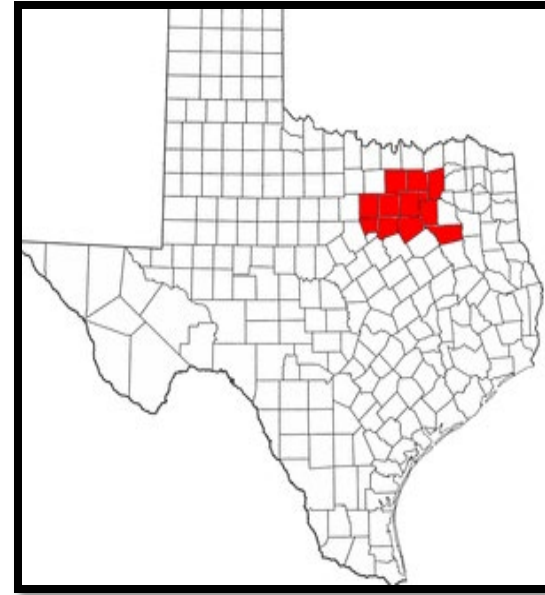
- It is our policy to offer the property owners the opportunity to accompany us on our inspection of the property so that we may discuss any concerns you may have and exchange relevant information regarding the property. Due to the **COVID-19** situation all of our appraisers will be **taking every precaution** to ensure safety on our property inspections. We are also willing to explain about the project and proposed access acquisition and answer any questions you may have **over the phone in lieu of meeting in person**. In those cases, we would still like to inspect the property unaccompanied with your permission.

# Appraisal Reports - Assumptions

- As of June 11, 2021, which is the effective date of this appraisal report, the world market has been affected by the Coronavirus Disease 2019 (COVID-19), and the effects on world markets are just beginning to be seen. This report is based on the **best historical data available and researched up to the date of the report**. The appraiser has diligently researched and analyzed the available data, and it appears that the world market has had an adverse impact on some, but not all sectors of the local economy. Most noticeably, the residential and industrial markets are generally performing quite well after very brief periods of decline as noted in the forthcoming Area Analysis. There are signs of economic recovery in the local market, and this report assumes that these conditions will continue. Should this not be the case, **the conclusions and values expressed in this report are subject to change**.

# Appraisal Report – Area Analysis

- Office Market
- Industrial Market
- Retail Market
- Residential Market
- Multi-family Market



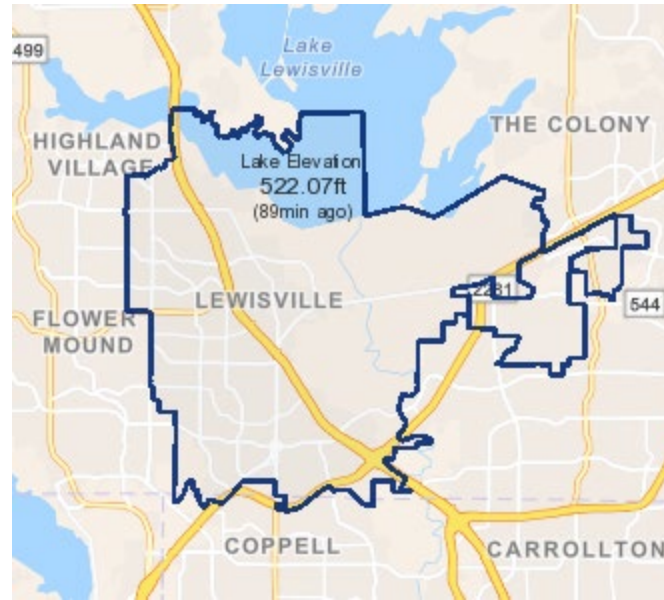
# Appraisal Report – Area Analysis

- Impact on Unemployment rates





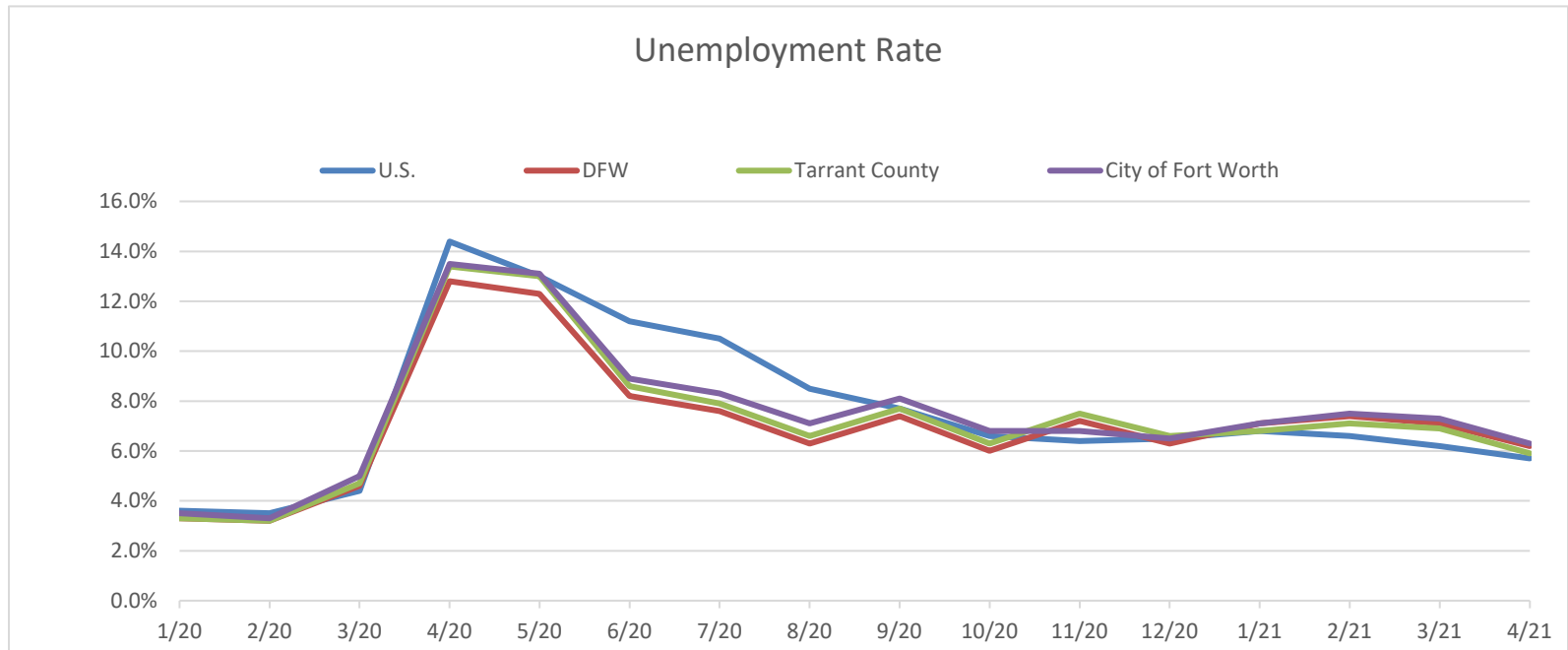
# Appraisal Reports – Neighborhood Analysis



- Commercial/Retail Market
- Industrial Market
- Residential Market

# Appraisal Report – Neighborhood Analysis

- Unemployment rate



# Appraisal Reports – Neighborhood Analysis

- COVID-19. As discussed in the Area Analysis, the Dallas/Fort Worth MSA has felt the effects of the Coronavirus Disease 2019 (COVID-19) pandemic, most notably in the **retail and office sectors**. The full effects in the subject neighborhood market are unknown at this time. However, as of April 2021, **residential sale prices have increased dramatically** in the City of Fort Worth. In addition, there are fewer listings and a **less than one months' supply of homes** in the neighborhood. **The situation is constantly evolving**, and the appraiser will continue to monitor the data as it is available to determine what effect, if any, the pandemic will have on the immediate real estate market.

# Appraisal Reports – Residential Sales Approach

- Market Conditions (Time). Generally, prices rise over time due to inflation and the decreasing supply of land. The sales in this report occurred between January 2020 and the present. As of June 11, 2021, which is the effective date of this appraisal report, the world market has been affected by the Coronavirus Disease 2019 (COVID-19). In the **DFW MSA, the median sales price for residences increased by 13.95% from April 2020 to April 2021**. House prices in the **Fort Worth residential market increased by 13.4%** over the past year. The price increases are due in part to a very low supply of homes (generally less than a 1-month supply) while demand has still been strong. Based on this data and conversations with market participants, it appears that the local residential market has remained strong during the pandemic. Therefore, a market conditions adjustment of **12 percent per year** (1 percent per month) has been applied.

# Appraisal Reports – Commercial Sales Approach

- Market Conditions (Time). Generally, prices rise over time due to inflation and the decreasing supply of land. As of June 11, 2021, which is the effective date of this appraisal report, the world market has been affected by the Coronavirus Disease 2019 (COVID-19). This report is based on the best historical data available and researched up to the date of the report as well as conversations with market participants. The sales utilized in this report occurred between December 2019 and the present. Based on conversations with market participants and paired sales analysis, a market conditions adjustment of **6 percent per year** (0.5 percent per month) has been applied **up until February 28, 2020** which was prior to the economic shutdown. Due to the impact of COVID-19, **no adjustment has been applied from March 1, 2020 to the present** as the **commercial** real estate market was considered to be **stable during this time period**.

# Sales Research

- Additional research and confirmation
- Broker's opinions of the impact of the economic shutdown
- Marketing time for sales
- Market trends
- Constant research

# REAL ESTATE MARKETS

- Markets changed over time
  - March 2020 “flatten the curve”
  - April 2020 huge spike in unemployment
  - Summer 2020 residential market up
  - Summer 2021 residential market hot!
- Various markets performed differently
  - Residential vs. hotels/offices

# REAL ESTATE MARKETS

## Commercial/Retail

- Retail stores & Hotels hit hard
- Grocery stores had strong sales
- Convenience stores performed well
- Stable prices for land



# REAL ESTATE MARKETS



## Restaurants

- Drive thrus considered “essential”
  - Strong sales in 2020
- Sit down closed or reduced capacity
- Restaurant sales \$659 B in 2020
  - Down \$240 B from expected levels

# REAL ESTATE MARKETS

## Residential

- Low inventory of houses for sale
- Strong demand
- Rapidly increasing prices
- Sales over list price
- Very quick sales



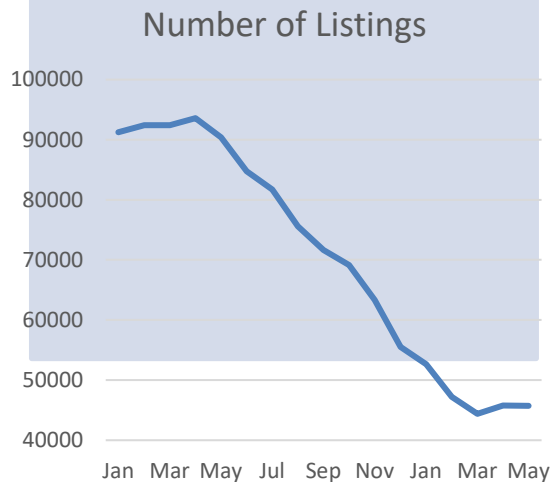
# Texas Residential Market

- Demand has greatly outweighed supply for residential housing especially in the <\$300,000 sector
  - Due to the low interest rates and people spending more time at home
  - Increased demand saw a record surge in housing permits seeing a 20% increase YOY from 2019

# Pandemic Performance

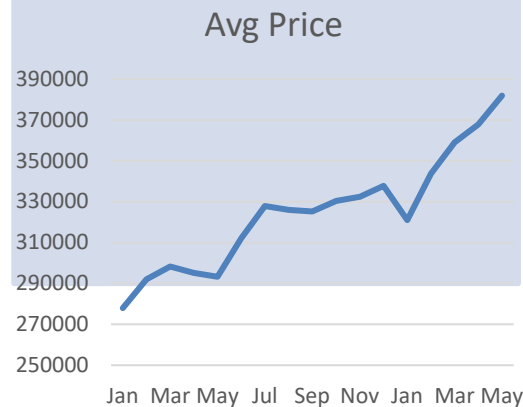
## Listings

- Listings fell steadily after a slight rise in April Sales Volume



## Average Price

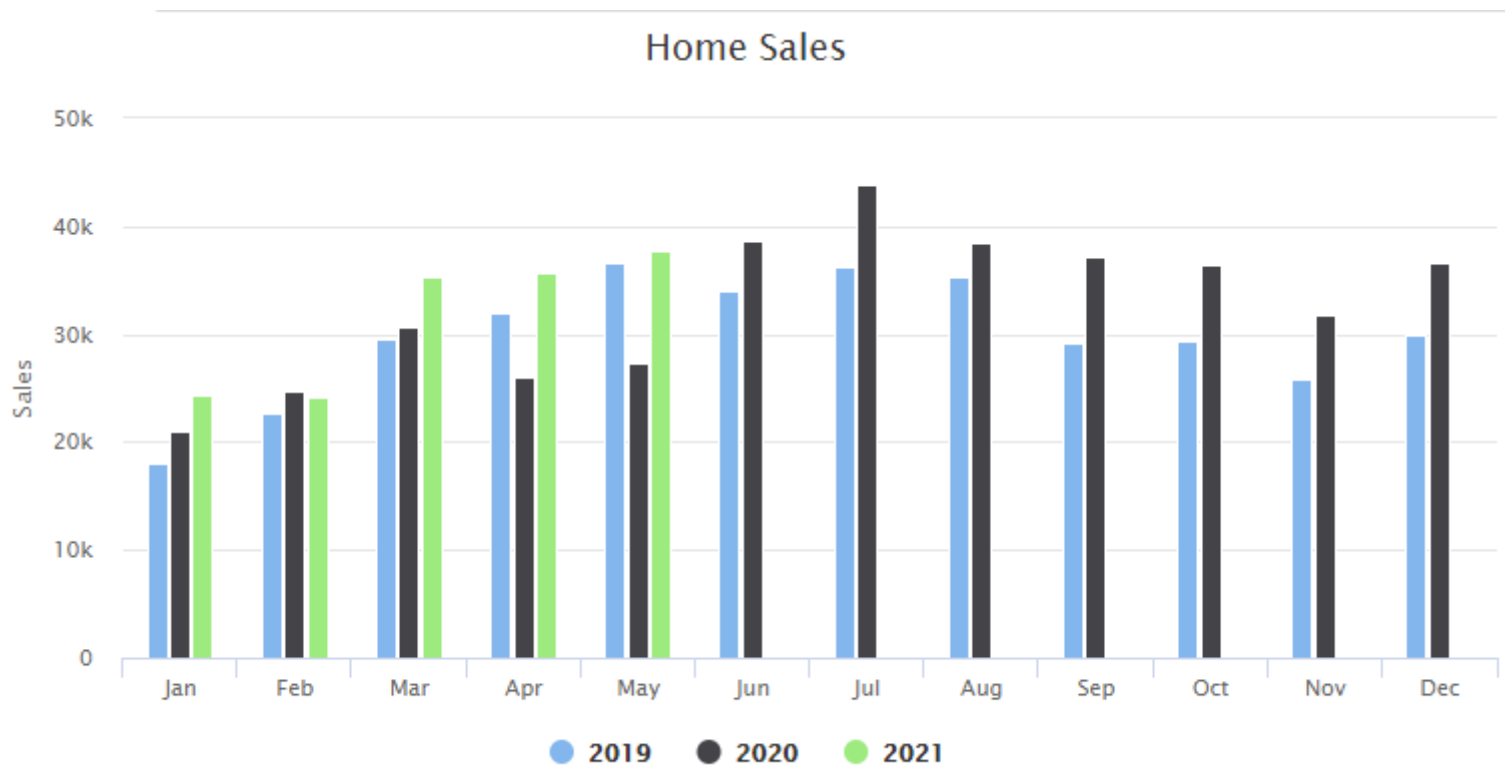
- Prices increased before staying flat during most of the pandemic, then rising steadily in the new year



## Sales Volume

- First couple of months after the pandemic saw the volume of sales drop drastically before rebounding greater than the 2019 sales volume of 2020

# House Sales



Highcharts.com

# REAL ESTATE MARKETS



## Industrial

- E Commerce sales
- Strong demand for distribution centers
- Very low vacancy rates
- Increasing prices

# REAL ESTATE MARKETS

## Office

- Companies closed offices during pandemic
- Remote working
- Vacancy rates increased dramatically
- Prices dropped



# REAL ESTATE MARKETS

## Austin Office Market

- Negative absorption in 2020 & 2021
- Increased vacancy in 2020 & 2021
  - Q2 2020 – 10.6%
  - Q2 2021 – 16.9%
- Asking rent down
  - Q2 2020 - \$51.68
  - Q2 2021 - \$49.10



# REAL ESTATE MARKETS

## Dallas Office Market

- Negative absorption last 6 quarters
- Increased vacancy in 2020 & 2021

## Houston Office Market

- 5 quarters of negative absorption
- Vacancy rate 26.8%

# FUTURE MARKETS

## “NEW NORMAL”

- Economy has reopened slowly
- New COVID cases and deaths decreased
- Vaccinations
- Delta variant



# FUTURE MARKETS

## “NEW NORMAL”

### Hotels

- Leisure travel returned first
  - Pent up demand
  - Stimulus money
  - Vaccine rollout
- Business travel followed
- Hotel occupancy rates increased



# FUTURE MARKETS

## “NEW NORMAL”

- Hotel Forecasts
- Full recovery of demand in 2023
- Recovery of revenue per room 2024
- Leisure travel substantial recovery
- Business and group travel
  - Continued headwinds
  - Several years to recover demand

# FUTURE MARKETS

## “NEW NORMAL”

### Hotel Forecasts

- Operating costs increase
- Labor shortages
- Cap rates rise modestly
- Prices down slightly

# FUTURE MARKETS

## “NEW NORMAL”

### Restaurants

- Drive thru preferred type
  - No discount in price
  - Tenants pay rent
- Sit down less desirable
  - Big discount in price
  - Closures



# FUTURE MARKETS “NEW NORMAL”

## Residential

- COVID concerns reduced
- Employment stabilized
- Supply is expected to increase
- Price drops?
- Price increases should return to previous levels



# Housing Forecasts

**Table 1. Single-Family Housing Forecasts**

	2019 (%)	2020 (%)	2021 (%)	2022 (%)	1991-2019 (%)
<b>Texas</b>					
Housing Permits	3.0	20.3	15.2	6.6	5.3
Sales	4.7	8.8	8.4	4.7	4.6
Price per Square Foot	4.2	6.6	8.3	4.5	4.7
<b>Austin</b>					
Housing Permits	8.8	14.7	13.4	3.4	11.2
Sales	8.2	10.0	8.4	3.6	6.2
Price per Square Foot	4.2	8.1	8.6	7.2	6.2
<b>DFW</b>					
Housing Permits	-1.1	21.5	13.8	2.9	4.5
Sales	3.2	9.8	7.3	5.2	4.9
Price per Square Foot	3.1	6.1	7.8	5.1	4.5
<b>Houston</b>					
Housing Permits	-0.5	20.9	10.3	7.3	5.6
Sales	4.4	10.4	7.2	3.6	3.9
Price per Square Foot	3.1	4.8	7.2	6.5	5.2
<b>San Antonio</b>					
Housing Permits	12.9	16.0	14.4	5.4	8.1
Sales	7.6	13.0	9.4	4.6	6.9
Price per Square Foot	5.1	6.8	7.7	6.2	4.6

Note: Estimated with Oct./Nov. 2020 data. Annual numbers represent the 12-month total for the single-family sales and housing permits, and the average for the price per square foot of the seasonally-adjusted data. Price per square foot is normally estimated from the previous year's average.

Sources: U.S. Census Bureau and Texas Real Estate Research Center at Texas A&M University





# FUTURE MARKETS

## “NEW NORMAL”

### Industrial

- E Commerce is here to stay
- Demand for distribution centers stay high
- Solid price increases



# FUTURE MARKETS

## “NEW NORMAL”

### Offices

- Companies returned to the office
- Remote work much higher
- Hybrid work schedules
- Reduced need for office space
- Vacancy rates higher



# FUTURE MARKETS “NEW NORMAL”

## Austin Office Market

- Corporate migration
- Only 24% of new space is pre-leased
- Increase in vacancy is possible
- Flight to quality

# FUTURE MARKETS

## “NEW NORMAL”

### Dallas Office Market

- 50% of workers returned to offices
- Fewer offices being developed
- 45% pre-leased
- Vacancy back down

# FUTURE MARKETS

## “NEW NORMAL

### Houston Office Market

- Hybrid and Remote working
  - Uncertain at this point
- Slow improvement

# QUESTIONS

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