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## Is it Possible for Appraisers to Accurately Value Commercial Real Estate During COVID-19?



Commercial real estate is currently in a state of great uncertainty, as is commercial activity in general. Because we do not know what we are facing in the long-term regarding COVID-19, business and property owners are dealing with very negative numbers in the moment that may or may not continue.

During a TreppWire podcast, the Vice President of Commercial Real Estate Product Management, Lonnie Hendry, shared his ideas around accurately evaluating commercial properties during the COVID-19 pandemic. Will it ever be possible for appraisers to accurately value commercial real estate during COVID-19?

Landry explains that one of the largest challenges appraisers are facing is how to provide a view on a property that can be verifiable with hard, timely data. "That opinion has to be based on facts," Hendry explains further adding that the data is used to calculate property values during periods of market stability including revenues, cap rates, occupancy, and expense ratios. These all come into question during a period like the current one, where sales are non-existent and comps from the last two months are mostly worthless.

Hendry suggests a few potential methods for generating accurate valuations. First by treating COVID-19 as a short-term proposition and valuating the property as stabilized, as he explained,

“we’re going to attribute some form of economic obsolescence to this short-term downturn in the marketplace.”

The second approach Hendry offers is dividing a single year’s NOI by a property’s cap rate and reinforcing that calculation with a discounted cash flow analysis. Hendry says, “where you look at maybe the first couple of periods of that discounted cash flow being very negatively impacted by losses in revenue and corresponding cash flow and then ramping up stabilized operation over the remainder of the holding period.”

The third potential scenario includes collecting a store of data that places a distinct emphasis on past downturns and the quantifiable impacts they had on the value of commercial real estate. This may provide some guidance for the rest of this pandemic once the data is collected, organized, and analyzed - and be even more beneficial for the possible next pandemic.

Wheeler Capital Partners President, Joe Wheeler, says “I think this is an unprecedented event where you basically have a total market collapse across most asset types across the nation. And so logic has to come in as well to say, ‘Nobody really knows what the answer is in terms of where that stabilized market is.’”

The numbers around commercial properties will continue to be perilous for the foreseeable future. To gain an appropriate appraisal, longer trends will need to be studied. The collapse of 2008 led to a severe new construction contraction, but the market for existing structures didn’t suffer as severe a hit. While uncertainty about new buildings will continue for a time, existing buildings may come back up in value as the nation adjusts to coronavirus challenges.

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