



RHarper Consulting Update

Spring's Here! - What's Blooming in Your Market?



Roger Harper, Principal of RHarper Consulting Group, provides development consulting services to the senior housing industry.

For more information on RHarper Consulting Group please call 615-218-4102 Or rharper@rharperconsulting.com

After what has been a brutal winter in most of the country, spring is here and things are literally starting to bloom. Figuratively, green shoots are appearing in many places right now, and while it is debatable if the recovery is in full swing, there are encouraging signs. The consensus is that the bottom was reached this past summer, and, while we may have been in a “jobless recovery,” at least the March numbers have finally shown some job creation. There are still plenty of spring and summer storms brewing out there as well. Let’s look at some “green shoots” and “gathering storms.”

Green Shoots

Distressed Assets – While it may be an oxymoron to consider distressed assets as a “green shoot,” there has been more movement since the first of the year. Both lenders and borrowers are recognizing that the long-term value of their assets has suffered significant losses, but at least there is a certainty of *some* value. Overall, the general sense is that values have decreased thirty to forty percent from their peak, and transactions are starting to occur at those levels. However, the more prevalent trend is forbearance agreements between borrowers and lenders which allow borrowers to retain their properties; these have avoided the “fire sale” consequences many anticipated.

Single-family – Generally, we are experiencing increased sales and price stabilization in the SFR market. While some areas are not yet in recovery, most have started to show some positive movement .

Multi-family – The lack of starts over the past two years has not gone unnoticed by institutional investors. Life companies, equity funds, REITs, and other institutional investors are aggressively pursuing acquisitions, and in some cases are providing funding for new developments in select markets. In addition, many of the projects that have entered the seeming “black hole” of HUD financing are now closing and commencing construction.

Gathering Storms

Construction Costs – The low construction costs of the past two years are quickly evaporating. Material and commodity costs are already spiking – lumber, copper and concrete have already shown marked increases during the past quarter. Inventories are depleted, and new orders are requiring longer lead times due to the industry’s diminished production capacity. Labor costs will catch up quickly as demand increases .

Home Buyer Tax Credits – The first-time buyer and existing buyer tax credit programs expire at the end of May. Much of the housing recovery mentioned above has been fueled by these credits. The true test of the recovery in the housing sector will be the demand once these programs fade away.

Shadow Market – Another looming cloud in the housing sector is the number of homes that have been placed on the market and subsequently withdrawn over the past two years. Further, many banks have held their foreclosure SFR properties, as they wait for the market to recover. If these properties return to the market, pricing will feel significant downward pressure.

Lack of Credit – Conventional lending has still not ventured back into the market. Despite regulator pressure, the banks are still reluctant to lend, or have lost significant capitalization and are unable to lend. Perhaps, as the banks’ distressed assets stabilize or are sold, lending will recover sufficiently to supply needed leverage in the market.

Conclusion

There are some signs that, as spring continues, we will not see the “green shoots” washed away by the “gathering storms,” and that we will be in the midst of a robust recovery as the leaves begin to turn in the fall. What’s blooming this spring in your market?

For more information please contact:

Roger Harper

615-218-4102

rharper@rharperconsulting.com

www.rharperconsulting.com

RHarper Consulting Group provides development consulting, program management, and owner representation services focused on the senior living and mixed use sectors. In addition, Mr. Harper is also a listed mediator and arbitrator providing dispute resolution services for the construction and real estate industries.

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