By Dave Black, AACI, P.App
Senior Vice President & National Lead
Advisory and Appraisal Services, JLL

The commercial real estate market is changing… but are appraisers?

Some of the young analysts at JLL still laugh at me when I tell them it was not that long ago I had to remember to pack a camera and a road map before going on inspection. It is amazing how much can change in only a few years.

We have not had to provide indications of value in challenging market conditions like today's since the global financial crisis of 2009. Even though conditions are not nearly as poor today, Stephen Schwarzman, Blackstone Group LP's CEO, said that up to 45% of the world's wealth was destroyed in a little less than a year and a half at that time. My career-long mentor Gordon Coffell has always stressed that real estate values typically climb slow and fall quickly. This could not have been more apparent in 2009.

Now, we are at the end of 2019, and we have experienced a decade-long stretch where appraisers were fairly popular – or at least, as popular as an appraiser can be.

THE MARKET IS CHANGING

Over the last 10 years, most transactional evidence has suggested significant investment metric compression across traditional asset types, coupled with strong operational fundamentals, including good growth in market rent. This has been particularly true in the major cities across Canada and points to some favourable findings from a valuation perspective. We have been the 'bearers of good news,' if you will. Now, we are witnessing some investor hesitancy that is challenging value in certain asset types. To highlight these market conditions, I would like to reference some takeaways from JLL's most recent Capital Markets Insight, authored by Thomas Forr and Scott Figler in our Research group:

> With pricing at all-time highs and suspicion of a business cycle at its peak, investors are doubling down on three strategies:

1) **Investing in gateway geographies.** The 'MTV' markets of Montréal, Toronto, and Vancouver have accounted for nearly 75% of all investment activity this year. In fact, four downtown office transactions – Vancouver's Bentall Centre, Toronto's Atrium on Bay and Dynamic Funds Tower, and Montréal's 1250 René-Lévesque – accounted for 15% of all deal flow.
2) **Investing in core assets** like urban office, high quality industrial, and high-density multi-family, which together accounted for two thirds of all purchases.
3) **Investing in development land.** With extremely low vacancy in the office, industrial, and multi-family sectors, municipalities are eager to streamline the permitting process and alleviate shortages for these uses, and developers are responding. Land transactions so far this year have accounted for over 20% of all deal flow, compared with an average of 8% over the past decade.

The report suggests that markets are changing. Typically, changing markets push investors to reflect and revise their strategy. When this happens, what does it mean for us appraisers? Your clients, more likely than ever, could be putting your values to the test. How confident are you in that number?

THE WAY WE APPRAISE IS ALSO CHANGING

In my day-to-day, I am a fee appraiser and focus on valuation assignments of major institutional grade assets (primarily retail, office and industrial) across the country. Valuation is becoming a tougher gig these days as investors become more cautious and the gap between the bid and ask price widens. Our market value estimates are defined by having willing buyers and sellers, but what happens when a price gap exists between these two groups?

Earlier this year, I also became part of the leadership team focusing on the growth and strategy surrounding JLL's Canadian valuation platform. In October, I had the chance to sit down with our Global Valuation Executive to discuss valuation practices and approaches used around the world. Appraisers globally are facing the same issues: values are moving, and our clients are looking for more frequent indications and opinions. A constant theme is the requirement for trusted, quality, professional valuers, and reliable book values.

LOOKING THROUGH THE FRONT WINDSHIELD AS OPPOSED TO JUST THE REAR-VIEW MIRROR

I would like to believe today's appraisers are getting better. The technological tools we have at our disposal are constantly evolving and improving, making us more efficient in our practice. The data we have at our fingertips is unparalleled with multiple databases allowing us instant access to sales records and up-to-date transaction information. Even with these improvements, an appraiser still needs to display sound judgement. Does that 2017 sales comp you are providing have any relevance or applicability to your 2019 market value estimate? In most cases, likely not. So, what do you do?

You look ahead. We are professional practitioners with our standards to guide us and our ethics to follow. We have our resources to get the job done. But we cannot be caught looking in the rear-view mirror. At JLL, we focus on also looking through the front windshield: connecting with professionals in capital markets and retail, office or industrial leasing to get an idea of current activity, what is selling and what is not. We conduct surveys and interviews to gauge investor sentiment, metric trends, etc. In a time where the perfect comp may not exist, we have to be forward thinking. We are not just appraisers – we are advisors

For more info, please visit jll.ca/value *or email Dave.Black@am.jll.com.*