

Real Estate Challenges and Opportunities Part 1

Be ready to pay more for just about everything

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Estate Challenges & Opportunities in
2022 (Part 1)

COVID, Shortages, Northern state
flight, Inflation is back, land
shortages.



Be on the look out for great real estate opportunities

In 2021 and now in 2022, the challenges in the construction and real estate development business have nearly all been tied to the pandemic of 2020 and the many issues tied to this health phenomena. No one in our industry after COVID hit was expecting anything other than a disaster for real estate. Boy, were the experts wrong? How about just the opposite and still going

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great? Which begs the interesting question-if builders on average sold out of all of their inventory a year in advance from what they had originally planned, how are they going to provide new inventory given the high lead times of finding land and then entitling it and building new subdivisions? And, given the fact that most new inventory planned today could be sold right away as pre-

construction sales. But, who in their right mind would sell with deliveries so far out and no way of predicting how high construction costs are going? Imagine that in every healthy housing market builders will have virtually no homes to sell or build for months, if they were to do that. One solution, hold back build-able lots and bring them out more slowly. In Palm Beach County today, multiple listing statistics show sellers still getting 100% of their asking prices and prices are still high. New home sellers are raising prices quicker.

Inflation- For years our government has conveniently and left volatile consumer items out of their breadbasket for which they base the inflation numbers. This is done so that government pensions, social security and other entitled payments based upon COLA indexes (cost of living

adjustments) are kept lower than the real inflation rate. But now inflation is surging largely thanks to the housing markets and fuel prices. With inventory shrinking in both the new and existing home markets, coupled with material and labor shortages and rising costs due to these shortages, and the lingering effects of COVID, it is inevitable that 2022 could achieve true double-digit inflation before the year is out. No matter what the lower government reported inflation rate is, true inflation will occur at higher rates than we have seen for some time.

Northeast State Flight- Across North and South Florida, NC, SC, Georgia and Texas- and yes Nashville (a recent favorite destination for New Yorkers) former residents of northern states are leaving in droves. COVID was the main culprit early on, but the allure of warmer weather and open spaces has also contributed. Once all or most companies, especially in New York, Connecticut, Massachusetts, New Jersey, California and Virginia moved their workers back to their homes to work online, people who in the past had even vaguely considered moving South, realized that a computer can function anywhere including in a warmer climate (with generally lower taxes). A mass exodus began. Dreams were delayed no longer. I recently met a husband and wife from the northeast. The husband works for a national firm in New Jersey and now operates his business from his new home in Jupiter, Florida. They are one of many contributing to over 300,000 people a year moving to the Sunshine State. This has been a boon to real estate in virtually every southern state. But certain parts of Florida are getting crowded and expensive. Northern buyers are not making it all the way to Florida and are now stopping in the mild climates of the coastal Carolina's, Georgia and the mountains of Tennessee and NC. At sales offices around South Florida this is an everyday occurrence. It is surprising how many people have acted on their long range dreams immediately to move South. It is no longer an apparition it has become a trend.

Land Shortages- It's hard to imagine land is in short supply in Florida, but it is true. It is true in many other states as well. One very big contributor aside from a physical shortage of housing is the complicated and time-consuming government process called real estate development entitlements. This is the process where builders and planners, lawyers, surveyors and engineers submit a myriad of applications, sometimes spending up to \$250,000 in the process of going through different town agencies seeking approvals on their way to an uncertain vote by the local city council. While this is the cost of doing business it also requires the land seller to cooperate by selling and closing only after all approvals are issued and to be willing to assist in approval paperwork. So, as builders sell out early and look for new more expensive land opportunities, it appears there may be a lull ahead for home builders running out of build-able land. This leads to eventual higher prices and shrinking inventory. Many times existing home sellers will inherit the original new home buyer unable to find new home opportunities. Thus remodeling becomes a strong option. Home Depot, Lowe's and the local re-modelers will be discussed in the next article. They will be very busy for years to come. In part 2 of Real Estate Challenges & Opportunities in 2022 the discussion centers on material shortages, employee poaching and holding finished lots off the market to get through the lean inventory times.

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