PRICE DYNAMICS PLATFORM

MIT Center for Real Estate

2020Q4

INVESTORS SUPPLY / DEMAND

Expectations gap still yawns but stabilizes in Q3.

Property owners (potential sellers) were still keeping their reservation prices (RPs) high or even rising in Q3 in the seven markets we track here, holding back the supply of properties in the investment market.

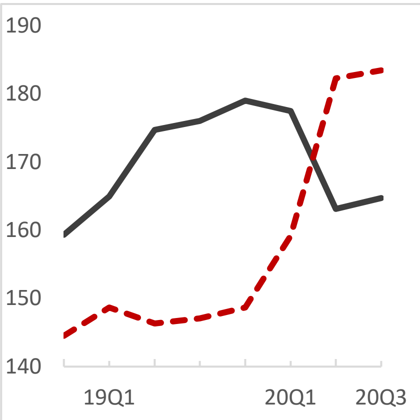
On the other side of the market, in Q3 potential buyers' RPs reversed or at least stopped their dramatic Q2 pandemic-based slide in most markets though at levels well below their 2019 peaks (black lines).

This leaves liquidity, or the expectations gap between buyers' minus sellers' RPs (which underlies deal volume) in negative territory, that is, below long-run recent historical levels, in all seven markets (supply willing-to-trade index level above demand willing-to-trade index level).

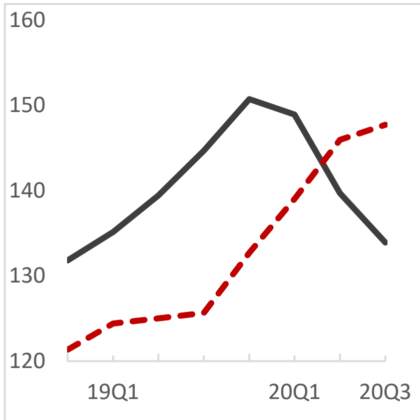
Chicago and San Francisco saw a continued drop in demand and modest decline in liquidity (increase in the D-S gap). The biggest increases in demand were in Seattle and DC. But those metros also saw the greatest pull-back in supply (increase in owners' RPs).

On the next page we highlight the New York metro market's entire history from 2005 in supply and demand RP movements as well as the expectations gap "Liquidity Metric".

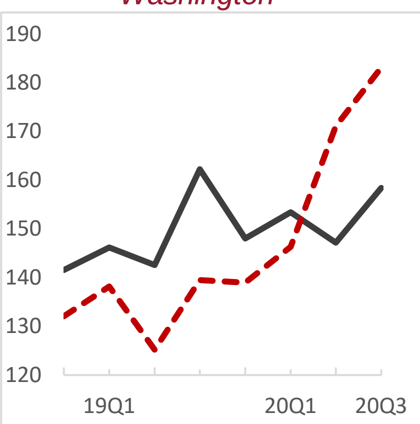
Boston



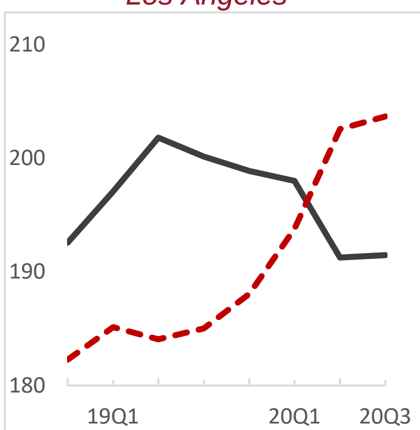
Chicago



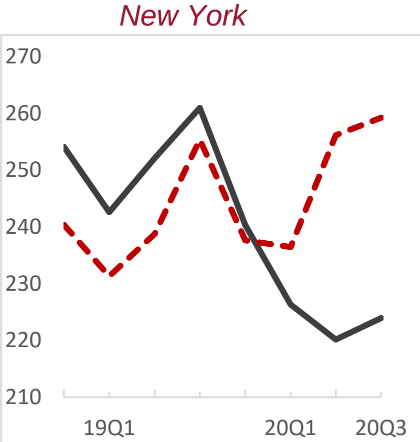
Washington



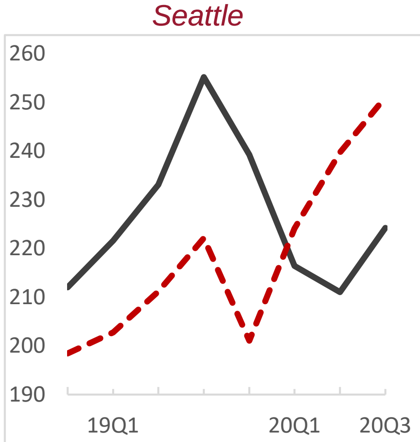
Los Angeles



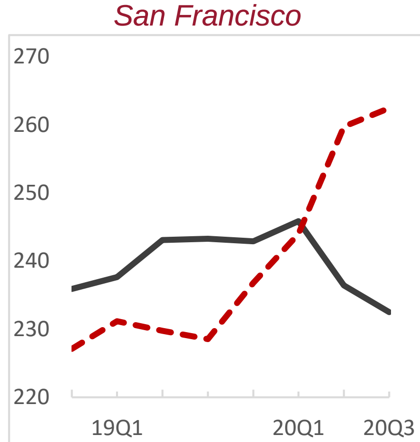
New York



Seattle



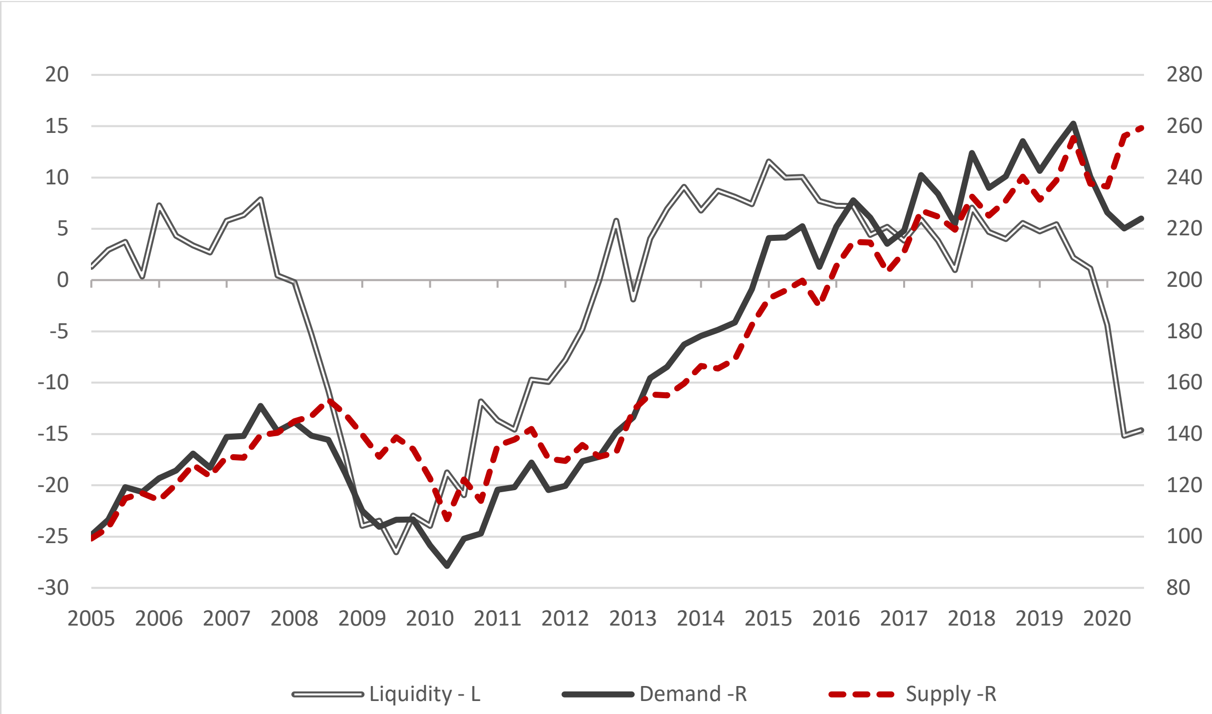
San Francisco



Comparing supply (red/dashed) and demand (black/solid) reservation price indexes of selected markets in the last 2 years, demand 2005Q1=100.

2020Q4

Comparing the Supply and Demand Indexes along with the Liquidity Metric In New York



Methodology

The indexes are constructed with the repeat-sales reservation price index method of Van Dijk, Geltner & Van de Minne (2018). The demand (buyer) and supply (seller) reservation price indexes are estimated with individual transaction data (apartment and commercial) from Real Capital Analytics (RCA) on a quarterly basis from 2005 onward. An increase in demand reservation prices reflects an increase in demand, an increase in supply reservation prices reflects that potential sellers are less likely willing to sell at original prices. The Liquidity Metric is the gap between the demand reservation price index minus supply reservation price index scaled at the current price level.

About the Real Estate Price Dynamics Platform

The MIT Center for Real Estate's Price Dynamics Platform (PDP, or "Platform" for short) serves at the intersection between Academia and the Real Estate Industry. Seeded by a generous gift by Real Capital Analytics in 2017, we utilize the newest data combined with cutting-edge and interdisciplinary econometric techniques from many fields not just real estate, such as (space) navigation, weather forecasts, and healthcare. We develop innovative tools that potentially have a global impact for real estate stakeholders, resulting in a more transparent real estate market.

We presently publish three products; (1) the Total Return Index, (2) CPPI Forecasts and (3) Investors Supply/Demand Indexes. We aspire to update our products on a regular basis. For more information on the methodology, to get access to the data or other reports, or to subscribe to our products, visit us at: http://pricedynamicsplatform.mit.edu/.