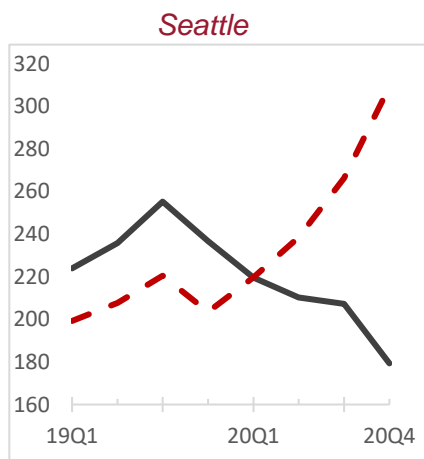
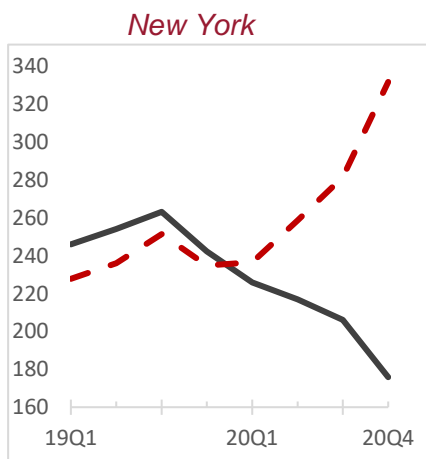
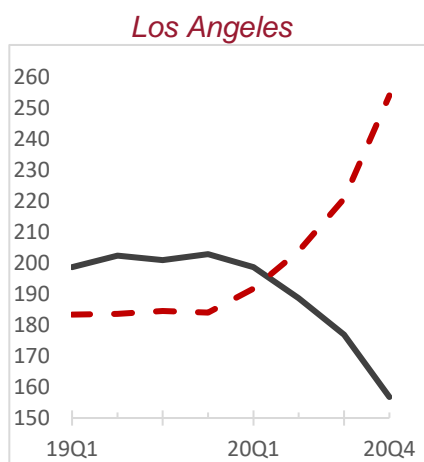
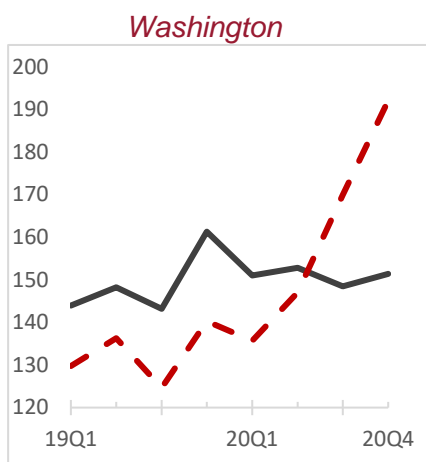
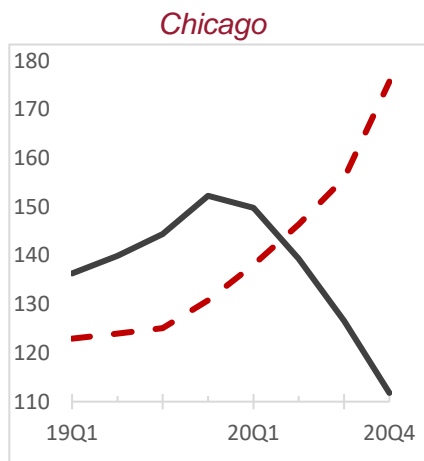
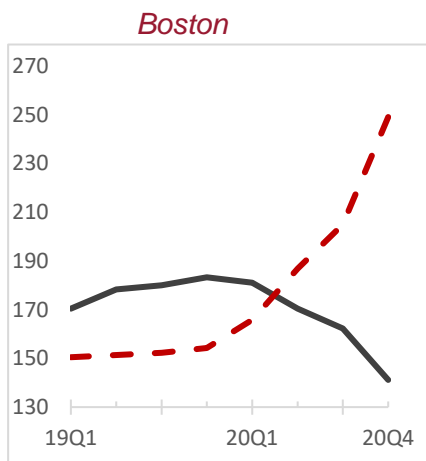


# INVESTORS SUPPLY / DEMAND

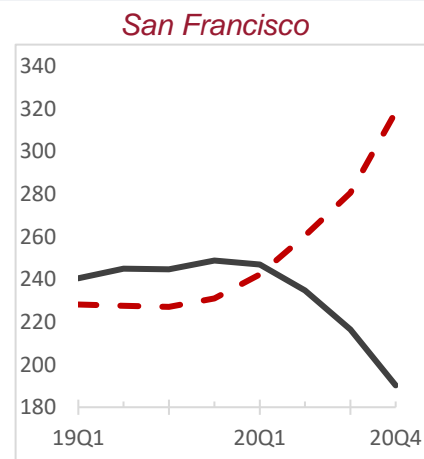


**The Gap between commercial real estate supply and demand reservation prices widened between in 2020Q4.**

The liquidity gap reversed (supply exceeded demand) in early 2020 with the onset of the pandemic, and the gap has continued to widen at an accelerating rate. While commercial real estate market demand reservation prices (RPs) (of potential buyers) and supply RPs (of potential sellers) have historically moved in tandem, with a slight lag on the supply side, this changed abruptly in 2020.

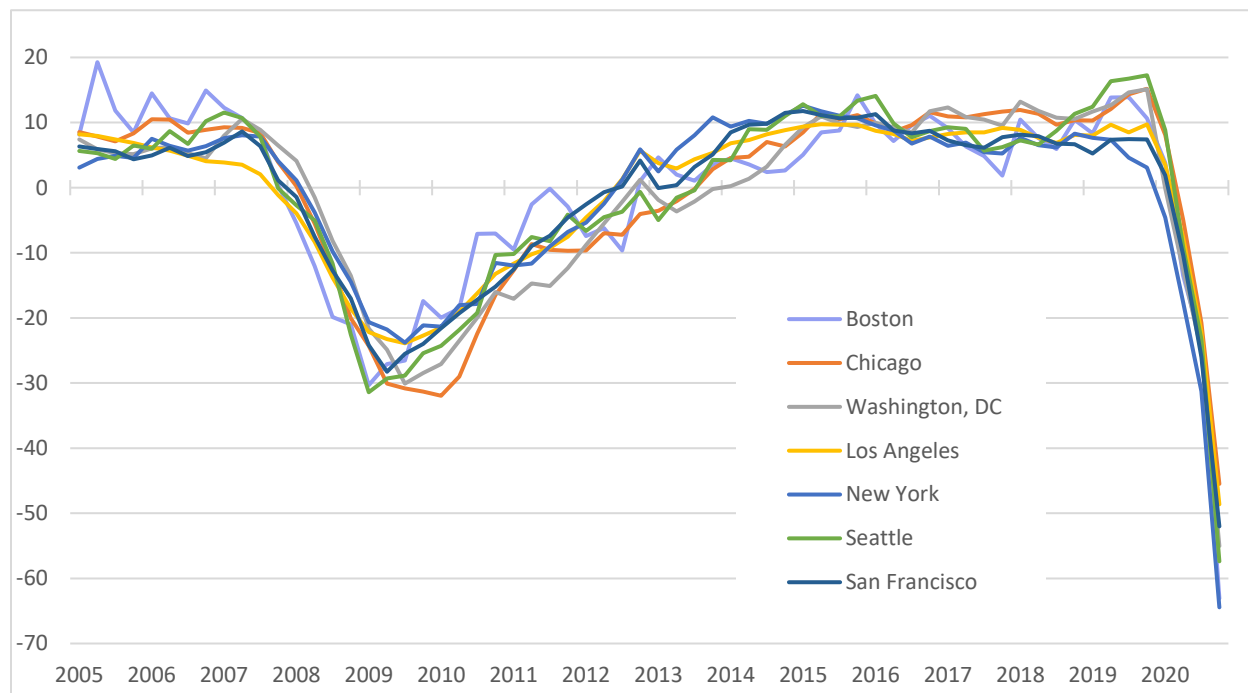
In some markets these indices began to diverge in late 2019, while the split in other markets occurred in early 2020. Over the past few quarters, sellers RPs (red line) have soared. Rising seller RPs means a pull-back in supply. Caution or uncertainty on the buy side moves their RPs in just the opposite direction. These factors have caused the year end liquidity, or the willing-to-trade price gap between buyers minus sellers, to plummet to the lowest levels since our indexes begin in 2005 in all seven markets.

On the next page we show the entire history of the Demand-Supply Gap since 2005 for all seven of our markets. The pandemic has produced a truly historic gap. Indexes tracking only consummated transaction prices miss this part of what is going on in the private property market, as the prices sellers require leave buyers willing to do very few deals.



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

Comparing the Liquidity Metric across markets, scaled at the prevailing price level in percentages:  
Zero = balanced market (average liquidity)



## 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 and 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/>.