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A lesson in supply and demand: Keep building, buying and selling - by Thomas House

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One thing that caught my eye was the (jargon alert) absorption rate of apartments and condos - down to 48% for the first time since the watershed year of 2008.

For the past decade, the trend has been toward rentals. So what's going on here? In some parts of the country, demand for real estate purchases has begun to outstrip the supply.

This indicates that some of those in apartments and condos were biding their time. At first glance, it seems it is their time.

The REALTORS Confidence Survey of the National Association of Realtors reports:

• Total housing inventory rose 2.1% to 1.96 million homes available for sale

• Unsold inventory is 8.4% lower than a year ago, marking the 24th consecutive month with year-over-year declines

Of course, a growing market (hiding out in apartment-type appointments) have a price problem. Demand for this tight stock is high, as evidenced by the summary finding by the NAR that what would normally be an inventory of over four months is currently only 27 days. That's right, less than one-quarter.

And that's the national average – demand is "very strong" in the Atlantic New England state, and "strong" in Connecticut. (Vermont is "stable"). This will carry over into 2018.

This imbalance continues to drive single-family home prices out of reach for aspirational and transitional buyers. The NAR's chief economist, Lawrence Yun, stated that "low supply is leading to worsening affordability conditions."

Compounding this is the student debt crisis (and make no mistake, if you are selling real estate it is a crisis). The Fed estimates that 35% of the decline in young American homeownership since 2007 is due to high student debt loads.

This is complicated by two factors are holding back inventory growth:

• First, new housing starts are still low, though have slowly and steadily increased since reaching bottom in 2012.

• Second, some homeowners are still under water, and rather than lock in their losses, hold their property while trying to pay down their mortgages.

Takeaway: higher prices, faster closes, smaller market. ‘Hold’ would not be a bad strategy if you think like an investor.

So we’re screwed, then? Well, no.

Multifamily housing continued its long and stable pattern of growth. And if the single family market continues through 2018, as predicted, then multifamily growth will stay on its current growth track.

Apartment building completions of five or more units increased nine per cent in 2016 - the last year for which Census Bureau / HUD figures are available. Condominiums and co-ops doubled.

Market conditions benefit agents and management operations more than builders, however.

“Absorption” is down somewhat – 52% of units aren’t occupied until three or more months after completion apartment, condo, or co-op units. (In 2009, that number was 45%, indicating a moderately slower market).

How is the economy holding up?

According to my graphic designer’s firm, we are just now entering a recovery. (He says his business has always been the canary in the coal mine, and their production board is full for the first time since 2007).

Such anecdotes aside, the unemployment rate is down to dramatic levels - though it is no doubt artificially depressed due to retirements – 10k people moving onto social security every day – and the movement toward “gig economy” self-employment. All and all, employers outside destination labor markets (e.g., Silicon Valley, Boston, Brooklyn, Austin) report difficulty finding qualified help, even at entry levels.

Some of New England’s cities are also in the midst of recovery, if the difficulty filling open professional positions experienced by companies in such cities as Portland, Burlington, and Worcester are any indication.

Due to the growth in household debt, particularly credit cards, there is some concern as to whether we are again in bubble conditions.

The New York Fed notes that the character of this debt is quite different, however, particularly in that it doesn’t involve “junk” mortgages. Higher levels of personal debt might degrade economic performance, it is not structurally unsound and thus will not short circuit the economy.

One measure cited by Ten-X EVP Rick Sharga is that today’s housing prices, even with upward pressure on prices, has only reached 2004 levels in adjusted dollars, and well below the 2006 bubble prices. And those bubble conditions today, do not exist.

So take a deep breath. Keep calm. And keep building, buying, and selling.

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