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Midyear thoughts - The housing crisis is a supply-and-demand imbalance - by David O'Sullivan

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What happened to the first half of 2019? Here we are in July and it seems like winter just ended a short time ago. It is prime vacation season and maybe finding that everyone you are looking for is away someplace else. At least with today's technology most people are still available, just maybe you will not get immediate answers. There is no shortage of political news but real facts about what is happening, especially as it relates to the building industry and the housing crisis is always in the forefront.

Boston has just been named as the third most expensive city in America for housing costs. There are many reasons for this fact but the biggest issue is lack of housing supply. Recently on WBUR they had a story on the housing crisis in Boston. Real estate experts attribute the historically expensive housing market in part to historically low inventory: In 76 of the last 77 months tracked by the Massachusetts Association of Realtors (MAR), the group reported year-over-year declines in the number of homes for sale. In Massachusetts in July, the number of closed single-family home sales was up 3.3% over the year, according to the MAR. But more telling is the number of houses on the market, which was down more than 15% compared with July 2017, while prices were up 7.2%.

The inventory crunch has led to calls for cities and towns to modernize their zoning bylaws to allow for more housing, but an attempt to facilitate that process failed to make it through the state Legislature's formal session earlier this summer. Amy Wallick, who's vice chair of the MAR's government affairs committee was quoted, "The more restrictive the zoning is, the less inventory we are going to have."

It's a supply-and-demand imbalance that analysts blame for soaring prices. Median single-family home prices in June hit a record high of \$430,000, only to come down slightly in July. The MAR says in a recent release that the market is causing worries of a housing bubble: "Wages are up but not at the same pace as home prices, leading to the kind of affordability concerns that can cause fewer sales at lower prices."

There has been a push from governor Baker and many industry groups to provide zoning reform. The zoning proposal is part of a broader package Baker promised would create 135,000 new units in the state. In December his office said Massachusetts home prices “have increased at the fastest rate in the nation.” Baker later told the Joint Committee on Housing that the high cost of homes “poses the most serious long-term hurdle to continued economic growth.”

The city of Boston has seen increases in housing costs on several fronts. Median home prices in the city are up 55% since 2005, according to the Greater Boston Housing Report Card from Northeastern University. Prices in South Boston and Jamaica Plain have risen to altitude sickness-inducing levels, up more than 80%. Rents, too, are soaring — up nearly 55% since 2009. The average market rent for the inner Boston core is now more than \$2,800. “Since renters, on average, have substantially less income than homeowners,” the report says, “the spike in rents has been particularly severe in its impact on lower-income working families.” Boston’s mayor, Marty Walsh has pledged to create 53,000 additional units in the city by 2030. “We set, and are surpassing, our historic housing goals in every income bracket,” Walsh said in his State of City address in 2019. “We’re going to use every tool at our disposal to keep Boston a city of neighborhoods and a city for everyone.”

So zoning is just one aspect which needs to be addressed to make housing more affordable. And the issue is not just confined to our local area. The National Association of Homebuilders has launched a program “Creating Housing for All”. It is billed as finding creative solutions to the affordability crisis. It is looking at such subjects as urban and land planning, zoning and subdivision requirements, public-private partnerships and code changes which add to the cost of construction. “Builders report solid demand for homes. However, they continue to grapple with labor shortages, a dearth of available land and rising construction costs that are making it increasingly challenging to build homes at affordable price points relative to buyer incomes,” said NAHB chairman Greg Ugalde, a home builder and developer from Torrington, Conn. The cost of housing is determined by a complex equation involving labor and material costs, financing options, federal, state and local regulations and supply and demand.

There are many stakeholders that determine these factors and all need to work together to achieve improved results. There is no one magic solution. So as we enter the second half of 2019, we need to look for solutions to the housing crisis to ensure continued economic growth.

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