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Is the 2011 housing forecast brighter than the current weather forecast?

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To the chagrin of commuters and shovellers alike, the weather forecasters so far in 2011 have been fairly accurate. Forecasting the housing market in 2011 will reveal less stormy conditions than prior years, but the accuracy of the housing market forecast may be less certain than the weather forecast. Housing appears to be following the overall economic recovery as opposed to leading it as it has in past cycles, due to the dearth of hiring and a lack of certainty or confidence in the velocity and steadiness of the recovery.

As people get back to work, or start working for the first time, absorption of existing housing inventories in Greater Boston should pick up slowly. But it is not just having a job, it is the surety of keeping it, and the growth in one's income over coming years that is critical. Many people who lost what was thought to be long-term stable employment and expected income growth have changed careers as some of these jobs have disappeared for good. With a new career and more conservative business decisions about investment and hiring, people are insecure about their jobs and aren't relying on raises and bonuses. The last thing they want to do is to buy a house that may not grow in value, or get into a mortgage they will have trouble paying in the future. This lack of confidence is pervasive and undermines the pick-up in home purchases despite the improving job numbers.

Good news in the media about business and consumer confidence is better than good news about job numbers. Buying a home remains to a large measure an emotional purchase, and a good dose of confidence will support an emotional decision. With media outlets headlining foreclosure growth, no wonder people are afraid to reinvest in themselves and their families. Foreclosure numbers are real, and are going to be a factor throughout this year, and counting distressed property sales in with "normal" non-distressed purchases makes prices housing value recovery look a lot worse than it really is. This also means that some communities will recover sooner than others. The areas with continuing foreclosure problems will not see growth in unit sales or values until those properties move through the system into stronger financial hands, and that will take some time. The communities with strong quality of life fundamentals like schools, transportation, commercial districts and a good economic and employment base are already seeing better sales and increasing prices.

In fact, we are likely to see growth in prices before we see growth in unit sales - not what one would expect, quite the opposite, for two reasons. One is a lack of inventory in many areas, which puts pressure on prices but does not support a high number of sales. In the South End neighborhood of Boston for example, available inventory is down 27% year-over-year and down 47% from 2008! Some of this is due to the freeze in new developments and the conversion to rental use in many

neighborhoods as builders stopped building and development slowed. This limited inventory and reluctance to build may force prices up and is a contrast to the "overbuild it and hope they will come and overpay" strategies of 5 years ago.

The other reason prices are likely to increase is that high-end sales are expected to pick up steam before the rest of the market. The "smart money" has called the bottom as one pundit put it, and based on some notable high-ticket sales during the end of 2010, and good activity so far this year, more big purchases are likely this year. Recovering portfolios due to stock market surges and big dollar reductions in high-end inventory will bring a surge in sales in these more "discretionary" or "lifestyle" purchases. If this forecast of the high-end holds true, both median and average prices will look a lot higher.

The pace of development may support a more stable and steady path toward growth in the coming year and beyond. Developers large and small are starting again to both acquire and permit projects with an eye toward coming to market with a cadence that is supported by real demand, not just speculation. Many are also building rental housing since it is more financeable, with a plan to offer condominiums for sale once there is a proven market.

To dig deeper into the weather metaphor, we would all like to see a January thaw. Buyers tend not to shop for homes in bad weather, slowing new sales. Sellers wait to put their homes on the market until the sidewalks are clear and their houses look good on a sunny day with crocuses popping up, which affects the timing of inventory levels.

The forecast calls for "wait and see".

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