



CELEBRATING
55 YEARS

nererj

Is it over yet?

April 11, 2013 - Front Section

Winter doesn't want to let go this year. We get a few sunny, warmer days and then another snow storm. This pattern is especially painful when it is "officially spring."

It seems that this pattern is also occurring in our economy and the real estate markets in particular. We see a few "green shoots" and then cold reality hits. Our "recovery" seems to stutter and sometimes falter. The good thing, however, is that the bright spots - like daylight - seem to be getting stronger and lasting longer.

Take the housing market as an example. A strong spring 2012 faded later in the year and now has come on strong in 4Q2012 and 1Q2013. The latest report from S & P Case-Shiller Home Price Indices is very positive. The 10 city and 20 city composite indices posted their highest year over year increases since 2006, reports David Blitzer, chair of the index committee. Although far from the biggest gainer (Phoenix at +23% year over year change), Boston posted a respectable +4% change for 2012.

There are other signs to be watched in the housing market, however. The Warren Group reports a 4% decline in the number of sales transactions vs. one year ago. This is attributed to the decreasing inventory of homes to buy - especially affecting first time buyers. This news, together with recent reports of bidding wars and paying over asking price, clearly indicates that supply/demand is out of balance in favor of sellers.

One result of this imbalance may be increases in prices going forward. This adds to the good news of a housing recovery. Housing has often led economic recovery, so this is good news. The challenge will be to sustain the housing recovery. Rising prices may lock out some buyers, despite the continued historically low interest rate environment, which could put a damper on the recovery.

The housing market, although very important, is not the whole story. Other sectors of the real estate markets have seen both improvement and continued doldrums. The market for office space is a two part story. For example, there are many reports of the success of Class A - core assets as a preferred class for acquisition by institutional investors. The success and strong demand for space in the Seaport District and Kendall Square, Cambridge, is in the media continuously. However, vacancy rates in the Financial District remain high, especially for Class B space.

Suburban office markets continue to experience high vacancy and stagnant rents. The lack of sustained job growth has been particularly hard in this sector. The preference of many younger workers, especially in the technology sector, to work in more urban settings has contributed to the problem.

These are two examples of sectors of the real estate economy that are making progress but still have some cloudy, cold weather ahead. As with the change from winter to spring, there are bright spots and not so bright spots. Rest assured that recovery continues and Spring is just around the corner.

Jonathan Avery, MAI, CRE, is president of Avery Associates, Acton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540