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Supply and demand, interest rates & things that go bump in the night

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We live in extraordinary times. This must be said.

Those of us in Boston won't be scared off the streets by this, but the intimacy and wonder of this quirky city will seem different, coming together in crowds won't seem quite as spontaneous, the pride we take in our public pleasure will seem more calculated, and we will walk, ride, and run with awareness. What a horrible tragedy for people and families to go watch the Marathon, one of the City's grandest traditions, only to be randomly and senselessly killed, dismembered, shocked, and injured. The best things we can do is to continue to live in this City, enjoy its wonders, and refuse to be hide behind closed doors and shuttered windows.

In looking at MLS data recently, I was struck not only by the lack of inventory but the relationship of listing and sales prices. In Newton, for sales less than $1,000,000, the list/sales price ratio for sales in the past 30 days is 101, so that the average sales price is greater than the average list price. Going back 3 months, the ratio is 98%, which is still high compared to historical performance. For example, in 2011, the ratio was 94%. This scenario plays out in other communities.

There has been an imbalance in many residential markets in 2013 and going back into 2012. Demand outstrips supply. Existing inventory gets fought over, prices get pushed up. It's nice to see housing markets turn positive again. But couldn't there be a period of stability, normalcy, the kind of fair weather sailing that we surely deserve after such long times of pain. Is it healthy to have markets become vicious seller's markets again? Hope the current scenario is temporary, very temporary, because if it isn't, watch out, again!

Is this kind of crazed behavior desirable? The data is less definitive on the commercial side but similar scenarios abound there, too.

Credible tales of dozens of investors jousting over a new offering are out there. The good stuff goes fast, the okay stuff goes fast, and the so-so stuff goes too. There are a lot of choices out there so if you want to buy, you have to play hard.

Low interest rates and low available rates of return out there drive the market too. It's not magic to see what happens to a capitalization rate with low financing and equity portions; be sure to test it in the market, though.

It's a volatile combination. Let's hope rents move in a similar relationship. This is income property investing, isn't it? Leave the generous sales/list price ratios to homebuyers. Keep fundamentals in mind in these extraordinary times.

William Pastuszek, Jr., MAI, SRA is the principal of Shepherd Associates, in Newton, Mass.