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New housing construction - Foundation of new jobs

May 09, 2013 - Appraisal & Consulting

Almost a year ago, I wrote about a surge in permitting and construction of housing in the Boston Metropolitan area. My basic premises were that developers were getting itchy, the economy was modestly improving, and interest rates were at an all time low. I concluded that a mini bubble might be forming, and it was unclear whether new-comers to Boston would get jobs to be able to afford the housing. To me, it was all dependent on whether job growth would put a floor under all the stimulus. Fast forward, we find the times, they really are a-changing. The recent January, 2013 report by the U.S. Bureau of Labor Statistics indicates that the Boston-Cambridge-Quincy metropolitan area stood at 2.49 million jobs in January 2013, up 48,000 from one year ago. Non-farm employment has risen 1.9% in our area compared to 1.5% nationwide. Of the 48,000 new jobs, over 30,000 were in Boston and Cambridge.

To summarize quickly: education and health services, the largest industries in the Boston area, had the highest employment gain, up almost 15,000, for a 2.9% growth which was above the national average of 2%. Second was professional and business services, with an increase of 13,000 jobs, up 3.3% compared to the national average of 2.7%. In fact, year-over-year, the Boston metropolitan area had beat out the United States average in all sectors except transportation, leisure and hospitality, manufacturing, and financial services. And these statistics do not really show off our huge potential in high tech and biotech research job growth. Both are still smaller sectors of our economy, but Massachusetts was tops in the whole U.S. in biotech research jobs, and sixth largest for high tech jobs.

Those who study this daily would have seen this coming, but now it's becoming clearer to the rest of us. While there is a lot of new construction in the pipeline for multifamily housing, roughly 4,400 units in Boston/Cambridge/Somerville, and many more being permitted, (about 8,000 units) if this level of job growth continues, it can be absorbed.

In fact, with strong demand coming from new employees, some say the new supply may be just bringing us back to more normal conditions. According to Business Journal websites, normal conditions of the past were 7.5% housing growth in every 5-year increment from 1942 to 1980. In 1980 it slowed down to 5.3%; slowly ratcheting down past 3.5 to 3.0, finally to 2.7% annually built since 2005. By way of illustration, in the past, Suffolk County ranked #17 out of 3,143 counties in the country when it came to percentage of housing growth prior to 1960. In stark contrast, when looking at housing built since 1990, Boston now ranks 3,003 out of 3,143 counties, thus going from one of the highest percentage housing growth areas in the past to one of the lowest growth areas in the present.

Governor Deval Patrick, recently said the State needs to build 10,000 new apartment and condominium units every year until the end of the decade to get back to normal. It seems to me that that number would be far too many to be absorbed. It is also a tall order to even try for an area that

has only reached that mark three times in the past three decades, and not once since 1987. Much of the obstacle of course is the availability and cost of land. The other is multifamily permitting, which could in fact increase the buildability of land, thus making the cost per unit potentially lower. In both cases, that is one deciding factor in why supply is constrained and housing is too expensive.

If young people cannot afford to move here, they will move to affordable high growth areas. And, perhaps some of the growth industries will also. That concern is not lost on all the communities and politicians. As we've all read, mini housing units of 250 to 400 s/f are suggested as quick hopeful solutions to the problem. It seems to me that kind of thinking is at best a quick fix, and the myriad issues need to be considered in far greater depth.

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