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The housing boom is on - The risk is on too

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If you're anything like me, you're a little confused over how good the housing market really is. On the one hand, we hear about low supply, quick absorption, and bid wars. On the other hand, we hear about too much supply in the pipe line, pricing and absorption still below 2006 peaks, in some cases 25% off, and the potential for money tightening.

It is fairly easy to believe both that the glass is half-full and half-empty. It seems like there should be a nice algorithm to come up with a conclusion at any given day or month in the year. The factors I would quantify in the equation are as follows: residential units permitted or under construction; units for sale and already sold; median pricing; time on market. In addition, I might look at rents as a competitive alternative, job growth in the area, overall economy, and perhaps median income changes.

I thought it would be useful to look into these metrics for the 2005-2006 time frame, the accepted peak in the markets, and compare that to the current situation. I use multifamily units in Cambridge as an example since there is good data available, and I am familiar with the projects there. Boston is similar, but with higher numbers. Here's what I found:

Permitted or Under Construction - Currently, there are approximately 5,400 multifamily in the permitting or construction stage in Cambridge. In each of 2005 and 2006, there were about the same number, just prior to the crash. The numbers are similar, except there were more under construction at that time, and more are in the permitting stage currently. Some of the permits have been in process for several years, so there is redundancy in the numbers. However, it is interesting to note that from 2000 to 2010, there were only 4,800 actual new or converted units added in total over the 10 years. Thus, we are witnessing a relatively huge surge in potential units over the next few years.

Units for Sale or Sold - There has been a steady uptick of units sold, with a 15% increase in sales in Cambridge year-over-year. Similarly, there are currently fewer for sale which is certainly fueling the market as buyers commit much more quickly in the moment. In 2005-2006, there were approximately 1,000-1,200 units sold in Cambridge. The supply of units for sale was higher as it was the tail end of a large construction boom. Today is the tail end of very little construction, and thus supply has been constrained. However, that will not be the case within the next two years.

Median Price - The 2012 median price in Cambridge has increased to \$510,000, about 2.5% or \$13,000 increase over the previous year. This is near 2006 peaks. Numbers to date in 2013 indicate further substantial increase. It is interesting to note that Cambridge condominium median prices have changed relatively little since 2005-2006 when they were \$420,000. Essentially, they had been flat from 2005-2006, with current increases happening more recently.

Time on Market - The amount of time on the market is also significantly lower at the moment than last year, at 70± days. Some of course sell within a few days. For the most part this is because

there are fewer units for sale, and demand is relatively high with low interest cost, poised to rise. People were obviously jumping on the bandwagon in order lock in a mortgage rate we now assume will be a thing of the past, at least at some point.

Summarizing, most will agree that things are improving, and that the large amount of multifamily potential in the pipe line as well as units under construction will probably not cause an untenable glut on the market. Enough jobs will be created, and people interested in moving to the city, to allow for modest absorption. That does not mean, however, that between a high supply and potentially constrained borrowing capacity, some units will not sit on the market longer. If that happens, pricing could flatten or fall, but not to the extent of a collapse. Many developers are aware that they may be in for some difficult times, but the opportunity to get projects going in our area is too good to pass up. Boston/Cambridge is in high demand, and while there may be a wait before developers reap huge benefits, most are aware that it is a rare chance to produce housing units in this typically supply constrained area.

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