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What to watch for in 2014: Housing market imbalances and commercial development

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Last year, I was "persuaded that the economy and real estate markets are in comfortable places." Events proved me not wrong, but not entirely right. So it goes for forecasts. There are problems out there, some serious, and much ambivalence about the future. In describing the tenor from my corner of the world, "measured optimism" may be a way to describe it. A colleague measured economic health by the increase number of holiday parties this year: not a definitive index to be sure but an amusing one.

The following is a summary of concerns to watch for over the course of this year.

* Housing. Housing is back, with a roar in most areas. Mostly, but not everywhere. In many rural New England markets, the suffering is not over because even though prices have improved as compared to a year ago, prices dropped so precipitously during the downturn that it will be some time before many owners emerge from underwater.

* Housing Prices/Activity. MLSPIN data shows some strength in the overall picture. In 2013, there were nearly 46,000 transactions, up -7.5% from the previous year. The median price was nearly $325,000, up 10% from last year. Days on market declined from 126 to 98. List price ratios increased from 96 to 98%. Of concern is the drop in existing home sales over the latter half of the year.

* Inventory. Lack of product is still the issue. Housing creation is likely to lag demand for a time, which will continue to create supply/demand consequences. Homebuilder sentiment and housing starts are both up. Welcome to the feast or famine cycle of housing. Keeping close watch on pricing bubbles and general/specific appreciation will be key for housing observers this year.

* The Fed. Quantitative "easing" may have actually worked and the gamble on pushing rates to near zero may have paid off. Recent rate increases may have throttled refinance activity - mortgage applications hit a decade long low - but, with the economy seemingly back on track, increases in employment and increased consumer confidence.

* The People/The Government/ Fiscal Issues. Bitter political partisanship has ceased to be entertaining. Widespread "disgust" with current political states of affairs is a mild way to characterize popular feeling. Citizens want solutions, and don't really care how. Democrats, Republicans, the Tea Party have been voted in, out, back in. Ideological victory regardless of the cost to parties or to the country is no longer fashionable. This is beyond the various parties learning to play together better but about agreeing so that the country can begin to prosper once again.

* Housing problems. Mortgage delinquency rates and foreclosure rates show solid improvements. Problems in these areas are not totally gone but the outlook is much better. Affordability is once again an issue, both for rentals and for home ownership. Pre-crash, public policy sought to increase home ownership; the crash changed that forever. Area affordable rental housing is in short supply;

many households struggle with making ends meets with high rents and all the other burdens in an age of low wage growth and limited employment opportunities.

* Commercial Markets. Commercial real estate participants feel more optimistic about profitability in 2014. Can rents rise as the recovery takes shape? If markets feel pretty good about profits in a slow-growth recovery, they should become ecstatic if recovery gains momentum. Core markets are steady, if not strong, but many outlying areas will struggle with moribund local conditions.

Massachusetts saw population gain over the recent past and beat out the rest of New England. Not all areas saw gains, however, and fringe areas will continue to see population erosion which doesn't speak well for real estate markets in those area long term.

All in all, there's ample cause for greater excitement about the coming year. I am particularly curious about housing market imbalances and commercial development.

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