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Should we be worried about condo markets? Condo cycles have contributed to instability

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The housing recovery is so well established that it can no longer be considered a recovery, but the beginning of a new cycle. Depending on how far back the start of the recovery is measured, the newest cycle is well-established. Not quite sure what to call this cycle but it's an improvement over what went before.

In most areas, markets are characterized by low inventory and above average demand. Despite a dip in demand for new construction, apparently weather and holiday-related, house hunters are back in full swing, and the spring market is being eagerly anticipated. Case Schiller notes a nearly 10% increase in prices over the past year in Boston.

Prices are up in most areas. Most observers are anticipating strong appreciation. Many places, but not everywhere. Warren Group data shows single family prices have begun to come towards pre bust levels. About time. Condo prices have recovered to pre-bust levels.

Should we be worried about condo markets? Condo boom and bust cycles have contributed to housing market instability over many years.

Statewide, the condo market had a good year in 2013. MLSPIN data shows there were over 19,000 sales in Massachusetts, up over 10% from the previous year and up 25% from 2011. Median prices increased from 2011-2013 from \$270,000 to \$304,000, an increase of 11% over a two year period. Days on market dropped from 114 to 80, according to MLSPIN.

These are signs of a healthier market. All signs point to continued health.

Here are some concerns that have been voiced. Let's consider those that suggest condo markets will evolve in interesting ways over the next year.

More Condos will adversely affect rental demand. Not going to happen soon. While many renters are would be buyers, the rental market is not going to be affected by a relatively minor number of defectors, i.e., renters become buyers. The increase in buyers of condos over the recent past pales in comparison to the number of rental units and renters. Further, condo demand is also generated from detached housing owners as well. It's a mistake to make such a narrow comparison.

Product will Flood the Market. There's not enough of it for that to happen yet. Interestingly, all those developers that created rental housing during the bust are going to make out just fine by either holding or converting their units.

Higher Interest Rates Will Stall Demand for Condos. Higher interest rates have affected refinancing activity but there is enough pent up end user demand to soak up inventory. Consider also that the condo market is multi-faceted, ranging from converted apartment units to the fanciest of the fanciest product in Boston, Cambridge, and other high end communities. On the development side, lenders have plenty of money they want to get working and developers are more than eager to take those dollars off their hands.

Buyers, brokers and developers are decrying the lack of product. Unit creation will lag demand, but markets have a habit of catching up with a vengeance. We may be talking about another bubble a year from now.

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