

Over supply of apartments: Home ownership to the rescue

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Exactly three years ago, I wrote an article for NEREJ questioning whether the millennial generation had permanently shifted to rental apartment living. I cited the reasons why: difficult lending standards for purchase; job uncertainty; heavy college debt; no credit; recent memory of parents losing jobs and/or inability to sell their house. I concluded that this 80 million person population needed flexibility and would thus prefer rental housing. That said, I ended the article with a question about when the pendulum would swing back towards the ownership side.

Time has flown, and I for one believe there will be a tipping point soon, with those apartment dwellers wanting condominiums or even single family housing. A lot has happened in these three years. Job certainty has improved, with a much stronger employment picture. The stock market has increased almost 50%, creating wealth for parents and children alike. Parents previously stuck with houses now sometimes enjoy bid wars. Lending standards are beginning to ease slightly, and interest rates are equal to or even below what they were then.

In addition to those economic factors, apartments have filled up and rents have risen, sometimes dramatically. In the Boston metropolitan area a \$3,000 - \$4,000 per month rent is not uncommon. Let's do the math. At \$36,000 - \$48,000 rental costs per year, those funds could purchase a \$400,000 - \$500,000 condominium with debt service around \$20,000, taxes, insurance and condo fees around \$15,000, and \$10,000 more for utilities and sundries. In other words, while the formula may vary depending upon price and area, there is probably a condominium that will fit most current renters' abilities. A break even scenario is on the horizon if not in the wings. Better than break even, young millennials will build equity, create banking relations, improve credit worthiness, and build stronger community relationships. With housing prices improving, young buyers will begin to see home ownership not only as the American dream but once again as an appreciating asset. And, based upon recent comments by the Federal Reserve Bank, interest rates will stay low well into next year, allowing for affordable borrowing power.

Interestingly, much condominium housing product has already been built. Three years ago, no bank would lend on a condominium project. They would only underwrite it as an apartment project, under strict standards. Because of the apartment demand and increasing rents, developers built financially feasible projects that are now tried and true and in most cases completely occupied. Many apartments have been built to a standard of quality good enough for home ownership.

Some analysts, and I am among them, believe that the apartment supply has exceeded apartment dweller demand. Many of those apartment dwellers will perhaps have an opportunity to convert to home ownership, even within their existing space. Unlike the conversions of the past, where renovations of old buildings were difficult and costly, conversion of new apartment buildings in many cases will simply be a change in legal documentation. The apartments are new, built with common area amenities for millennials, smart and efficient.

As I said three years ago, "What has been will be. Nothing is new under the sun," and the pendulum has started to swing back. Cities in high demand on the west coast are already well into considerable condominium conversion; New York City has never stopped; and our area is on the verge. Look for the tipping point, which may be faster and more dramatic than you think.

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