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## What to watch for in 2015

January 08, 2015 - Appraisal & Consulting

Last year, I concluded my 2014 forecast by saying, "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." I then talked some about "measured optimism." Hmm, hedging my bets, was I? So how did that punditry work out for me? Events proved me not wrong, but not entirely right. To wit: I think there were fewer seasonal decorations but the holiday parties were pretty good. The following summarizes issues to track in the coming year.

**Existing Housing.** Nobody was really happy this year. In good markets, buyers bid up limited inventory. The housing "recovery" has clacked along for several years now. Why isn't more housing coming on the market? Why aren't people selling?

**Housing Prices/Activity.** MLSPIN data shows that, in 2013 there were nearly 46,000 transactions, up +-7.5% from the previous year. The median price was +\$325,000, up 10% from 2012. Days on market declined from 126 to 98. List price ratios increased from 96 to 98%. In 2014, the number of sales dropped slightly with median prices increasing +\$12,000, not much appreciation. Days on market and SP/LP ratio stayed basically the same. Condos have done better.

**New Construction.** Housing creation in eastern Mass. have always been hamstrung by little land, high barriers to entry, and high pricing. Overall, National Association of Home Builders (NHAB) data shows that new home sales are down, and builder sentiment turned slightly negative. However, the downward trend is not considered to be a sign of things to come. Local builders are frustrated by lack of development opportunities. The high end continues to thrive.

**The Fed and Mortgage Rates.** The results of "quantitative easing" created a low rate play date for those who can and want to utilize credit. Pushing rates so low makes a very enticing environment for homeowners and investors alike, some believe dangerously so. With the economy seemingly back on track, with employment and consumer confidence on the mend, why aren't more homeowners and buyers joining the party? Unfortunately for those who make their living on mortgage originations, everybody that could took advantage of low rates last time around, which wasn't that long ago; the sales market just doesn't create sustainable volume. The fed seems to say that there will be no surprises on rates over the near future.

**The People/Government/Fiscal Issues.** Bickering and bitterness seems to have become ingrained in the political process with no benefit to the people. Not entertaining, not creating progress. Citizens want solutions. The various casts of characters - Democrats, Republicans, Tea Party and others - have been voted in, out, back in, and out again, with no discernable effect. This last election has legitimized grid lock so don't expect a whole lot of good things to happen during this congressional term. We could be pleasantly surprised, however, though I am not sure how that would happen. Thank goodness that the economy seems to be somewhat immune to the actions of this collection of politicians.

Housing problems. While mortgage delinquencies and foreclosures seem to be behind us, there are many who still struggle with unfavorable credit arrangements and too much debt. So, these problem areas are not totally gone but the outlook has improved. 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 continues, as always, to be in short supply. Renter households struggle to make ends meet with unaffordable rents and other financing burdens in an age of low wage growth and constrained employment opportunities. Housing creation, except where mandated, tends to cater to the upscale market.

Multi-family Markets. The NAHB reports some moderation in the positive builder sentiment of the past several years. Multi-family continues to be the "can't lose" investment. The bid up of prices at most market levels has not been accompanied by continued unbridled rent growth. Increases have leveled off.

The bloom is not off the rose, but the rose looks a tad faded. Multi-family creation in Mass. has injected a lot of new rental units into the mix: is this much new product sustainable in the long run? Thank goodness for the resurgence in the condo market.

Commercial Markets. Despite a lack of inventory, Commercial Real Estate (CRE) participants felt pretty good in 2014. Low rates have stimulated refinancing and sales activity; even rents showed signs of rising at many market levels. Vacancy decreased as well in various markets. Capitalization rates continue to "compress," and we hope this is due to sound fundamentals and not to capital market distortions. There are worries about deterioration in underwriting standards and a growing emphasis on finding ways to make deals work, if not on value, then on price.

Beware of investors waxing overly ecstatic if the recovery becomes an accomplished fact. Core markets are steady; many outlying areas still struggle with moribund local conditions.

There is plenty of cause for optimism in Mass., especially on the CRE side. There is cause for concern about competition for too little product and the possible adverse results of such pressure. 1-4 family housing is an enigma: it is a fervent hope that the mortgage industry doesn't try to monkey with the system just to create volume. Low oil and gas prices are a decidedly mixed blessing. There is ample cause, though, to anticipate 2015.

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