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The macro-economics of Boston metro real estate: Bricks and mortar strong in an uncertain year

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'Tis the season for new predictions...pretty difficult in a year which is characterized by its early unpredictability, as evidenced in the first few weeks of stock market opening.

My predictions will not restate facts and opinions of other real estate professionals, whose firms will hold annual conferences on the subject from the New Year on. One firm held its annual last week, and the evidence is there that all cylinders in the real estate machine are firing. Office demand is up, vacancies are down. Industrial supply is limited, and demand is strong. Retail is mixed, but there are some exciting venues in the making. And all agree that housing is on the mend with multi-family, perhaps even reaching bubble levels. 'Nough said.

In this article, I'll focus on the big picture, the macro-economic fundamentals that both support and forewarn of the pros and cons of the upcoming Boston metropolitan real estate market.

Good news first. Since the Great Recession we have survived fiscal cliffs, government shutdowns, quantitative easing, the "Taper" and the threat of rising interest rates, which has yet to happen. Despite some negative predictions, some of which were my own, these issues have not bruised us sufficiently to stop progress. That says a lot.

What are the main macro factors going our way? First, there is actual population growth within the Boston metropolitan area, something we have not seen in a long time. The Massachusetts population grew by .72% year over year from summer, 2013 to summer, 2014. This was the greatest growth of all New England states and about the middle of the road compared to the United States. Related employment in the Boston metropolitan area, including Cambridge and Quincy, showed 2,630,000 non-farm jobs in 2014, up 40,000 from 2013. This level of growth has been reasonably steady since 2012. Overall, unemployment here is 5.8%, lower than the national average.

Interest rates, the engine of stimulus, have been steady or steadily dropping. The Federal Reserve controlled long term rates by purchasing Treasury Bonds in order to keep demand high and thus interest rates low. Despite their recent commitment to stop purchasing (taper), foreign governments and countries see the dollar strengthening, and in turn want to purchase bonds here as a safe haven against their devaluing currency. Thus, where the Fed stopped, others are picking up the slack, and interest rates will continue to be low: incredibly low, compared to 1980 when the prime lending rate was over 20%, and thirty year mortgages were around 18%, if you can remember or even believe that.

In addition to this, corporate growth is strong, companies are hiring as evidenced by the decreasing unemployment rate, consumer confidence has improved, and stock market value has effectively doubled, creating individual wealth and improving all others invested such as retirement plans and health industries which will help support baby boomers retirement.

Add to all of this is the dramatic drop in the price of oil from well over $100 per barrel to the recent

low of $45 per barrel. This fact has a good side and a bad side. It puts more money in the pocket of the consumer and benefits certain oil using industries, but hurts the oil industry itself. Further, it causes uncertainty in the market place, and thus we have seen resultant volatility in the stock market. While this has been debated in the news, most would agree that cheaper oil is a plus for the U.S.

All good? Not exactly. What would a prediction be without some potential downside! I won't dwell on it, but the recovery has been slower than most in post-recession history. Additionally, the rest of the world upon whose success the U.S. has based some of its growth, is faltering. Chinese growth has slowed, and European economies are not as strong as we thought. Last, oil producing counties are suffering and will pull back on both European and U.S. imports. Finally, as the dollar strengthens, U.S. goods become more expensive, and the world may find other countries more suitable to buy goods from.

While some of these adverse events are possible, and they may well affect real estate, real estate improvement is relatively long termed. Unlike the volatility of the stock market, real estate is made of things that do not change overnight: financial commitments, leases, purchase and sale agreements, lengthy permitting and construction, and bricks and mortar in place. We, in the Boston metro area, are in the middle of a strong real estate market, and the storm clouds are only distantly visible. We cannot control them, but it is prudent to keep an eye on them.

Daniel Calano, CRE, is the managing partner and principal of Prospectus, LLC, Cambridge, Mass.