



nerej

Settling into the New Year and reflecting on 2014: A year that showed continued improvement

January 29, 2015 - Spotlights

As we settle into the New Year and reflect on 2014 we see a year that showed continued improvement with the economy. Here in Boston it almost seems like a building boom.

Over the last year there has been a recognition that as things improve, not everything is rosy. Much of the new housing is high priced and downtown not really affordable for the majority of the resident. The transit oriented developments which have been discussed for so long are finally showing results with projects in Somerville's Assembly Sq. taking off. Other development areas such as East Cambridge have gained momentum in the last couple years and new development is stitching together neighborhoods such as the Ink Block in South End/South Boston with new needed food stores and retail needed by new and existing residents alike.

So with all this, is the economy going to continue to improve and support continued new developments? Mayor Walsh of Boston hopes so and presented his Housing 2020 plans calling for development not just downtown but throughout the city addressing housing for the middle income people and more importantly housing for families.

I was at an Economic Forecast dinner last week sponsored by the Builders and Remodelers Association of Greater Boston. They had Dr. Elliot Eisenberg, who is a nationally known economist, revealing what we have been through and what we can expect for the year ahead. He showed that most indicators shown continued improvement, and that this will continue for 2015 despite potential troubles in Europe and Asia. The U.S. is in a good position for growth and should not be too negatively effected. The interest rate projection shows slight increase in rates but not for at least 6 months and then slowly and not too much change. The scary part was where income growth and type of consumer debt is trending and how it is affecting the recovery. The growth in student loan debt is preventing the younger generation from having money to spend on house purchases. The lack of income growth has hampered expansion of consumer spending. On the brighter side industrial capacity is at historic highs and he expects increase in business spending and increase in hiring. The subject of income growth has been a popular topic of late. There is hope according to Dr. Eisenberg, "Job quality is finally improving. Last year, industries that paid more than the average private wage of \$24.57 accounted for 66% of all jobs created. Business services at \$29.27/hour created 26% of all new jobs followed by goods-producing at \$25.81/hour which created 18% of new jobs while education and health at \$24.89/hour created 17%. Finance at \$31.02/hour created 4% and information technology at \$34.34/hour created 0.5% of all new jobs."

So what does this mean for us in the construction industry? Well I am writing this while I am attending the National Association of Homebuilders annual Conference and Builders Show in Las Vegas. This has given me many resources for information and lots of knowable people to discuss

how healthy the industry really is from a builders' perspective. All the architects I polled are very busy and are continuing to hire new employees and be awarded new contracts for future projects. Most builders throughout the country are experiencing growth and improvement in their markets. Even speaking to builders in southern NH and outside 495 are seeing good increasing in their business.

The issue has been household formation which is still at less than half the pre-recession level. One builder had a very unscientific gauge of the economy, his wife's family has been in the jewelry business for 3 generations and noticed a big increase in engagement ring sales so feels there will be improvement in the household formation!

As we move into 2015 I believe we are going to see improvement but not huge growth overall. That may be a good thing for our industry as the boom and bust is no friend to any of us. There will be spot markets which see overbuilding or markets where things will not show any improvement but we should all be happy to be in this industry at this time.

David O'Sullivan is president of O'Sullivan Architects, Reading, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540