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Warning Signs?

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The business press and some prognosticators are beginning to sound the alarm that we may be entering another housing bubble. There are a variety of signals that have been noted in these articles. I am not so sure this is the case.

One factor quoted in a recent press release from the National Association of Realtors is the dramatic increase in vacation home sales in 2014. They note that, based on a survey of members, vacation home sales in 2014 were up nearly 60% from 2013 - the highest number of such sales since NAR began the survey in 2003. I am not as concerned with this spike in vacation home sales since, in my opinion, it is more likely based in the robust stock market we have experienced over the last few years. This return to a condition where many investors are experiencing the "wealth factor" combined with a concern about the short-term future of stock market equities is a pretty clear explanation to me. Investors are moving profits from the stock market into real estate. In fact, I believe this is a healthy sign since these investors believe residential real estate is a good long-term investment once again.

Another cited indication of potential problems comes in a recent article in the Boston Globe quoting a survey from Smith & Wainwright, a real estate valuation company based in Florida. As noted in this article, "...home prices are soaring in many communities, open houses are packed and bidding wars are back in style." The author suggests that these may be indicators of return of a housing bubble in Massachusetts. This study is based on national indicators and the "bubble" conclusion is heavily dependent on strong price increases in markets, which suffered badly in the Great Recession. I wonder if this is not in fact recouping values, which had dipped to historic lows in many of these markets. In Massachusetts, much of this price appreciation is, in my opinion, resulting from a lack of supply as much as it is from irrational exuberance on the demand side.

Finally, the recently released S&P/Case-Shiller Home Price Index is more measured in its reporting. Both the 10-city and 20-city composites shows year over year increases in January comparable to December. The 10-city composite gained 4.4% year over year and the 20-city composite gained 4.6% year over year. These are not "spikes" in my opinion. In the local market, Boston reports a 4.7% increase in the 1-year data and a January - December change of +1%. These indicators also do not support the conclusion that we are heading for a bubble.

Review of the studies and data presented in these sources does not, in my opinion, indicate a bubble in the housing market - short-term. It will always be important to monitor these trends for the longer term analysis. In conclusion it appears that any increase in pricing that may occur this spring in the local market will be driven by the weather-related difficulties in the local economy in the first quarter and pent up demand in the face of short-run supply. The continued improvement in economic conditions and maintenance of historically low interest rates will help the local market as it continues recovery.

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