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## **Economic activity has been rising at a good pace - by Brett Pelletier**

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Brett Pelletier  
Kirk & Company

Fundamentals are strong and lagging indicators are confirming anecdotal observations in the markets. The Federal Reserve Open Market Committee (FOMC) reported in late January that labor markets are strong, economic activity has been rising at a good pace, and unemployment is low and therefore they decided to maintain the target for the Fed Funds rate at its current level of 2.25% to 2.50%. Generally, consistent with these observations is the current trends in the CPI, which remained flat in January at 1.6% over the trailing 12-month period. Couple that with 304,000 non-farm job increases in January, and year-end GDP figures at 3.4% and it's off to the races. National unemployment ticked up to 4.0% from the partial federal government shutdown and the U-6 measure of unemployment moved substantially from 7.6% in December to 8.1% in January. Certainly, no major issues to report.

As of February 26, the U.S. Department of the Treasury reported yields on 10-year treasury bonds of 2.64%, while the 1- and 2-year yields were 2.56% and 2.48%, a spread of only 8 and 16 basis points, respectively. This yield compression may not be worthy of worry just yet, but it is certainly worth consideration with regard to investor demand and sentiment relative to the U.S. bond market. More to come, I'm sure. It has been widely reported that the spreads on the treasury yield curve between short- and long-term bonds have been tightening, and we're very nearly flat now, but whether that holds in the long term is anyone's guess.

Other news headlines of note include a number of high-profile notices from HUD and Secretary Carson. HUD has recently awarded more than \$2 billion to help end homelessness, which includes \$78.5 million for Massachusetts, \$7.2 million for Rhode Island, and a total of nearly \$150 million spread over the whole of New England. Additionally, HUD is expanding the FHA mortgage insurance pilot program that includes LIHTC properties with FHA 223(f) and 221(d)(4) insured mortgages in an attempt to reduce redundancy, administrative costs, and production time and increase overall affordable housing production nationally. Welcome news for affordable housing advocates.

A welcomed push from the Federal Government that makes its way to local affordable housing

communities in each state is a good start. This also shouldn't be news to anyone who's been involved with real estate in the last decade. The same story is repeated ad nauseum. Low levels of supply, high levels of demand, and housing costs outpacing any other reasonable economic measure is a formula for problems. Daniel McCue of Harvard's Joint Center for Housing Studies (JCHS) published a paper in October outlining a very fundamental economic imbalance in the affordable housing markets. According to McCue "A growing number of low-income renters are competing for a shrinking number of low-rent units." According to his research, U.S. households earning less than \$26,000 (in 2016 dollars) grew by 1.8 million in the ten years from 2006 to 2016 while at the same time the number of rental units affordable to these households declined by 500,000. Not only is there a backlog of units to be built outpacing demand, those unit counts are moving in the wrong direction. The numbers get more alarming when we isolate 62+ households, where in most markets, 50% of all households include seniors.

It's not news that the percentage of cost burdened households in the U.S. has been alarmingly high for some time, but on a local level, it's important to understand the economics of our housing markets for all residents and users. HousingWorksRI recently reported in their 2018 Housing Fact Book, that the supply/demand imbalance is putting additional pressure on the cost of housing across the state. According to their research, 145,000 Rhode Island households (35% of all households) are cost burdened, spending more than 30% of their income on housing costs and 44% of those households are severely cost burdened and spending more than 50% of their income on housing.

All of this to say that the themes of inequality and out of control housing costs are finally becoming a NOW problem. In certain markets this is an important conversation to have as communities start to plan for the future and in others it was an important conversation to have a decade ago and it now constitutes an emergency situation. As rates start to inch up and credit markets tighten, it will be important to focus energies on ensuring adequate housing production of all stripes.

Brett Pelletier is chief operating officer with Kirk & Company, Real Estate Counselors, Boston, Mass.

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