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The year reviewed: An eventful year 2019 was, on many fronts - by Bill Pastuszek

January 10, 2020 - Appraisal & Consulting

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An eventful year, 2019 was, on many fronts. On the real estate end of things, it was a pretty much steady as it continues to go this time of year. The biggest surprise was that these markets keep on going, going, going, like that tired old TV Bunny!

Let's examine some 2019 trends. They just might be helpful in figuring out 2020.

Movement of the People. Fewer than 10% of Americans moved to new places in 2018-2019, the lowest rate since the Census Bureau began tracking domestic relocations in 1947 (Km Hart, Axios Cities.) Despite a strong economy, why is mobility down? Part of it is housing affordability, a factor for both younger workers and aging adults, and part of it is based on job market limitations. The article goes on to say, "The share of Americans who moved in the past year is about half the number in the 1950s, when about one-fifth of the population moved each year. That number is now 9.8%, the first time it's dipped below 10%. Only 20% of people aged 20-24 moved this past year, down from 29% in 2005-2006. Of those in their late 60s, only 4% moved in the past year."

William Frey, a Brookings demographer, said: "[T]he continued decline since the Great Recession and the housing crunch is driven by the millennial population.

The homeownership rate in the US is currently 64.8%. In 1990, it was 64.1%

Office Space. Office space square footage per employee since the Great Recession point towards "tighter" layouts. The current national average is 194 s/f per employee, down 8.3% from 2009. The shrinkage was particularly strong early in the recovery.

Square footage per worker varies across markets. The markets with the smallest allocation are Seattle and Washington, DC, with Northern New Jersey at the higher end.

More expensive markets tend to have less space per employee. It seems the rate of "densification" is driven more by the relationship between office supply and job growth. Markets with office supply created since the recession have “densified” more slowly.

The trend of less space per employee is starting to slow down as businesses grapple to achieve balancing personal, private, communal, and break space. More “densification” is expected, but at a slower pace as companies supplement private space reduction with increased shared space resulting in less effort to reduce s/f per employee and more emphasis to achieve office space effectiveness and flexibility. (Cushman and Wakefield).

Average Home Size. Businessinsider.com notes the median size of a Boston area home 1,767 s/f, right in between Orlando FL or Raleigh NC. Houston TX is reported to have the largest median size - 1,952 s/f - with Austin and Dallas also in the top five.

Office Capitalization Rates. The PwC Investor Survey, notes that the Boston Office 3Q19 cap rate is 6.07%. One year ago, it was 5.91%, and three years ago it was 6.21%. In the first quarter of 2015, the overall rate (unleveraged) was 6.48%. In 2010, the cap rate as 8.58%.

Remodeling Projects. Remodeling Magazine, in its 2019 Cost vs. Value Report, noted the average overall-cost-to-value ratio is 66.1%, below the decade-high of 71.2% in 2014. Rising material costs are impacting rates of return. Curb appeal projects provide the highest return. In Boston (and nationally), garage door replacement adds value in excess of the cost. Backyard patios, upscale master BR additions, major kitchen remodels, bath additions, and roof replacements fall at the lower end (+-60% of cost).

Housing. The median sale price for both single-family homes and condominiums continued to rise, while volume continues to lag. In November, 4,625 single-family Massachusetts home sales were records, a double digit decrease from the same time last year. This is noted as being unusual, even though volume tends to slip in the fall months. In October, there was a .8% increase. The Warren Group notes, “Year-to-date, there have been 54,145 single-family home sales – a 2.3% decrease from the first eleven months of 2018 – with a median sale price of $400,000 – a 3.9% increase on the same basis.” Nationally, NAR reports sales volume up 2.7% with median price up 5.4%. This is reported as the 93rd month of year-over-year “gains.”

Commercial Activity. The CoStar Commercial Repeat-Sale Indices Report provide the following insights: Composite indices – in particular - the equal-weighted U.S. Composite Index, which reflects the more numerous but lower-priced property sales typical of secondary and tertiary markets, increased 5.7% in the 12-month period ended in November 2019 - demonstrate slow, steady growth during 2019. On the other hand, the value-weighted U.S. Composite Index, which reflects larger asset sales common in core markets, rose 7.1% in the same period.

This is only a small slice of what happened. Looking forward to another interesting – but stable - year. Limit the surprises, please, if at all possible. And, the big picture is important, but the real news is in the details. Listen to what the street is saying.

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