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Life is a rollercoaster and we cannot get off! - by David O'Sullivan

May 27, 2022 - Spotlights



David O'Sullivan

We had been on an upward track in the building industry in March 2020 with business doing well, employment was growing, Boston was providing new opportunities and most of us were happy. Yes there were political issues nationwide, housing costs high and unaffordable for many and lots of workers in low paid jobs. The building industry was in a good place before the pandemic.

The economy was at a peak having continued to grow over the years and recover from the 2008 recession. It had been a long slow climb much like the start of a rollercoaster. Then in March 2020 the pandemic hit and we started a long freefall. No one knew for sure what was around the next corner and what might happen. At our firm we pivoted to working remotely and explored new ways to do our job and service our clients virtually and that came with success as we went over the bumps which come with any transition.

However, over the past two years, we have had many projects start and stop, approvals that were held up as cities and towns sorted out remote hearings. But we got through these with being busy one month, slow the next and this continued for about a year. Couple that with construction delays from Covid, supply problems etc. It really did feel like a rollercoaster with all the ups and down, twists, and turns.

The pandemic may have changed the housing industry and the rise of mobility for jobs coupled with the shortage of housing for sale in many communities has created its own rollercoaster. Homeownership has been declining for the last year. The rise of renting and decline of home ownership represents an upending of the social model that has dominated the U.S. for the past half century, and the model on which the economy is built. In addition, more people renting has inevitable knock-on consequences for society, even if they are living in the affordable housing sector. On one hand, it could be positive for job mobility and economic productivity. On the other, the current trend risks creating a demographic time bomb, with millions of renters hitting retirement age without the ability to pay for adequate housing in old age. There is no right or wrong model for a housing market. But are at a point of transition from one model to another without much thought going into the potential consequences of the change.

There is a problem coming down the tracks. The average private sector renter spends about a third of their income on rent. When people retire, income typically drops by half or more, especially if they have not earned enough to save for a private pension. While an owner-occupier will pay off their mortgage over 30 years, then have a home they can live in or a capital asset they can use to finance their retirement. If they do not, then that 33% they are spending on rent rises to 66% when their income halves. That means they need a pension pot that is almost twice the size in order to fund their living costs, and they still do not have a capital asset. Rents are rising by 10% a year in some cities, and that is creating social problems. In pure financial terms, putting money in the housing market is not the most effective use of capital over the long term. The U.S. housing market has returned 3.7% a year on an annualized basis since 1928, a study by website Investopedia found, using Case-Shiller housing index data, versus 9.5% for the S&P 500. People do not put the cash into the market and a mortgage is forced savings for many Americans. Home ownership is

moving out of the reach of a greater number of people while rental housing for people of all ages also becomes more difficult to afford. Just another unpredictable up and down in our industry.

Where are we now? The inflation rate is high creating higher expenses for all businesses. We have new challenges facing the housing industry. Material costs are up in most sectors and transportation costs are skyrocketing. Couple this with uncertain supply chain and labor shortages. This in addition to the ones we have been dealing with for years, which include land scarcity, onerous zoning restrictions, neighborhood opposition to change, and more stringent codes.

It will be interesting to see what is in store in the next 6-9 months as there are strong parts of the economy, high inflation and many predicting a recession. Welcome to the rollercoaster.

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