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Summer is the time to keep an eye on factors which affect our business futures - by David O'Sullivan

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David O'Sullivan

Ah, it's summer and a time for relaxation and vacations. But the world does not pause when we decide to go away and enjoy the beach, mountains or explore new places.

The news in the real estate industry is about supply chain issues, project delays, rising interest rates and falling sales. Affordability has become a bigger issue when people are looking to buy or rent a home. Construction and labor costs continue to rise and the codes are getting more complicated and stricter.

So what is on the horizon for our industry, what can we expect for the balance of the year? I try to remain upbeat and we as architects are still busy with new projects and lots of work out in front of us.

The National Association of Builders is always monitoring the metrics of the residential sector of our industry and is a great resource for trends. According to NAHB, U.S. home builder sentiment plummeted in July to its lowest level since the early months of the Coronavirus pandemic, as high inflation and the steepest borrowing costs in more than a decade brought customer traffic to a near standstill. At the same time, a gauge of activity in the services sector in the U.S. Northeast turned negative this month for the first time in a year, and firms there do not see an improvement over the next six months. The builder sentiment has dropped for the last 7 months. This is not good news for us in the industry and fell below analysts' expectations. Builders are finding it harder to make projects pencil out especially with having to drop prices to keep deals alive with rising interest rates.

The Commerce Department is expected to report that housing starts edged up last month from the lowest pace in more than a year, though some economists see any improvement as short-lived. "We look for housing starts to lose some momentum in the second half of 2022 with starts averaging around 1.5 million in Q4, but the deterioration in builder sentiment lends a downside risk to the forecast," Nancy Vanden Houten, lead U.S. economist at Oxford Economics, wrote in a note. A survey from the Federal Reserve Bank of New York showed activity in the services industry in its region - covering New York state, northern New Jersey and southwestern Connecticut - declined in July for the first time in more than a year. Is the Boston area insulated from this same decline? I am not sure we are immune, despite a diverse economy.

Boston has seen unprecedented growth as the bio-tech industry has expanded greatly in our area. The industry is creating new jobs and in turn a demand for labs for workers and new housing for those workers. In addition support for the industry in the form of retail and service workers are needed. This has helped sustain the real estate industry in the Boston area. But will it continue? Will the nation slip into a recession? Experts are mixed upon this subject and some feel it is too early to tell if steps taken will reduce demand and lower inflation or it will go further and hurt job growth and cause a recession. "Either output will start picking up as the economy averts recession," Peterson Institute for International Economics fellow Jason Furman wrote recently, "or employment will start falling as the economy slips into recession."

Boston has seen a strong multifamily market for the last several years and demand continues to grow. Vacancy rates for the Boston area are at about 2-3% with rents increasing last year 16% overall. Nationally, multi-family construction gained ground as rising rents burnish the appeal of apartment projects, cushioning the overall decline of housing activity as the single-family segment dropped to a two-year low. Housing overall is set to have been a drag on U.S. gross domestic product in the second quarter.

So we are in transition without clear answers as to where we are headed for the balance of 2022. There are too many known and unknown floating about—but it's going to be worth watching some of the data in the next few months. So for now, let's just enjoy the rest of the summer and keep an eye on factors which affect our business futures.

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