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## **The inside out upside down housing market - by Thomas House**

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MarketWatch declares we are in a 'housing recession.' Or maybe more accurately, the rents are too d\*mn...weird. Zillow claims the recent surge of rent inflation is coming down (well, rising slower but note: still rising). Conversely, the Consumer Price Index shows rents climbing at a consistent rate and have thus far reached their highest since the 1980s.

Single-family properties have added additional dimensions of pressure and the result of all this is a marketplace governed more by fluid dynamics than dependable economic principles.

Location, location, location

Of course, where you live will make a difference. According to Redfin, the highest median rent rose 15% to a shade over \$2,000... and the renters (and landlords) in Boston sardonically laugh, as rents rose 17¾% to double that number.

(In other parts of the U.S., rents are up 30 to 50%)

It also depends on whether you are a new renter. Unlike the normal goods and services of a market economy, where everyone experiences changes in price simultaneously, new renters immediately confront these current rents. Tenants with existing leases and agreements are locked in at lower rates, at least for now; they might have time yet for rents to settle down. Or not.

And all this is influenced by demand, and here there is a kaleidoscopic collection of inputs.

Inflation, inflation, inflation

Doctorate-level knowledge of differential calculus would be required to compute the vectors influencing inflation: induced demand from an emergency pandemic increase in money supply, the disruption in global transportation also due to the pandemic, and the effect of the war in Ukraine on food supply and energy delivery.

The Fed, with only a hammer in the toolbox, has raised the discount rate, which immediately hits mortgage rates, depressing housing starts and private homeowner demand.

Finally, corporations - including Zillow - are buying single family homes, to go with bursting portfolios of rental stock.

All of these reduce free-market inventory.

Each of these economic injuries came as a surprise; the aggregate adds to the complexity – and the difficulty in managing it.

The result is a distortion field of potential homeowners being driven into the rental market, increasing demand and reducing the supply of potential single family home buyers.

Wait. Low demand...and high prices?

But now the counterfactual: lower demand for single family home purchases has not resulted in lower prices, irrespective of interest rates, which CBRE presumes will (must, in their opinion) rise into mid-2023.

It's hard to keep your head from spinning when the National Association of Realtors also reports that existing home sales went down 20% year over year, and 5.9% from June to July... but prices still rose 11%. Properties remained on market for only 14 days while active listings (supply) are up 30% year over year.

Still, listings haven't reached the levels of two years ago, and are far short of pre-pandemic levels. When looking at more historic trends there is half the supply as 2019, thus the increased pressure on homeowner prices as well as rent.

And much of this supply is being purchased by LLCs who pay with cash (or someone else's money), not the friends and neighbors who might otherwise have become homeowners instead of renters.

Will the ripple effect become a tsunami?

The biggest impact of this pressure is on families - the most vulnerable demographic to a number of bad outcomes, and the least able to compete financially.

Families with children are downsizing to small apartments - and overbidding for what is available. After that, it could be a motel, a car...or somewhere else entirely.

This impact is measured in school enrollments, declining in many places as families are replaced by a childless professional class that can afford these suddenly increased costs.

This is how a roaring economy like New England's generally, Boston's particularly, can still lose population. This is not good politically - and these funhouse-mirror distortions of functioning markets will eventually impact real estate and adjacent businesses, depending on the ferocity of the eventual correction.

Some New England locations, particularly gateways, are already at the break glass pull lever point and are discussing emergency solutions that will be imposed by civic action. There is serious talk of rent control and zoning changes, these having an increased probability of becoming a reality.

The MBTA communities have already been ordered to zone into existence multifamily housing of substantial numbers of units - which must include 'affordable' options with a focus on transportation-oriented-design.

Which is to say: superheated markets, combined with superheated politics designed to level the playing field, will do nothing to mitigate the rising temperatures of climate change. But it will give us something else to think about.

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