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## **Spring forward with caution - by David O'Sullivan**

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David O'Sullivan

I always enjoy the onset of spring. It is a time of warmer weather, plants and trees starting to show signs of life and an overall anticipation by everyone of enjoying the outside. I wish the real estate and development industry was so easy to predict as the coming of spring. We have a Fed meeting this week where everything stayed the same with interest rates. Recent numbers concerning inflation seem to have had a slight uptick which is not what anyone wants to see. Two factors in the uptick are gasoline prices and housing costs. As usual there are unknown effects on our industry such as what is happening with the T, the work from home status and what companies are feeling about it and the political actions of state and local players.

So let's start by looking at some trends in the real estate market. Traditionally, spring is characterized by increased buyer and seller activity and peaking inventory levels, but what does Q2 2024 hold for the housing market in terms of mortgage rates, inventory, and home prices? What are the real estate trends over the next three months?

Lawrence Yun, chief economist of the National Association of Realtors (NAR), is optimistic about the coming months due to continuing job gains and a dip in mortgage rates. Bankrate's chief economist Greg McBride anticipates 30-year fixed mortgage rates could potentially drop below 6.5% by the middle of the year, while the National Association of Home Builders (NAHB) economist feels that may not happen until end of 2024. But despite the typical rise in selling and buying activity during spring, Q2 2024 may be slower than in previous years due to interest rates and buyers waiting to see if they drop.

Not everyone sees perfectly sunny skies ahead, though. Greg McBride, CFA, Bankrate's chief financial analyst, has some reservations about the second quarter market. "While activity will pick up relative to previous quarters, it may still appear tame relative to this time of year historically — and especially compared to 2021 and 2022," he says. "Lack of inventory will continue to keep a lid on activity. You can't buy it if it's not for sale." So this presents an opportunity for those producing new construction homes. Nationally, the percentage of sales attributed to new construction continues to rise. Unfortunately the Northeast has continued to see a decline in new home and multi-family starts.

We can expect a seasonal jump in home prices in Q2, as is typical this time of year. But, while sales volume may see a slight uptick during this period, the pace of sales could normalize, with homes taking a bit longer to sell compared to the frantic pace of recent years. Everyone does not see much loosening of inventory for the spring.

The overall economy continues to be good but there are concerns for us in Massachusetts. Some of the biomed companies are cutting back and it does not appear to be the huge growth industry of the past few years. High housing costs are making attracting talent more difficult for companies and therefore some are looking to expand elsewhere. We also have a loss of population occurring over the last year or so which does not bode well. We do have a governor and several other politicians that recognize we are in a housing affordability crisis and are trying to take measures to solve it, but

these measures will take some time to show results.

I did just receive this blog post from Elliot Eisenberg, the Bowtie Economist, where he cites some statistics which are probably overlooked by many, "Despite many households locking in low mortgage rates, household interest expenses are skyrocketing. In 20Q4, the peak of the dotcom boom, interest expenses/GDP hit an all-time high of 2.2%. In 07Q2, shortly before the onset of the "housing bust", interest expenses/GDP cyclically peaked at 2.04%. As recently as 22Q1 they were 1.1%, their lowest since 59Q4. However, in 23Q4, interest expenses/GDP were a shocking 2.02% and rising rapidly! Deeply concerning." This may explain why many households feel pinched, their expenses are up even if they are employed and have seen salaries increase in recent years. Housing is key to keeping our industry going, to fuel the economy in our area and keep Massachusetts on track as a good place to live, work and play. We all need to work together to make this a good spring for all of us.

David O'Sullivan, AIA, is the president of O'Sullivan Architects, Inc., Reading, Mass.

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