Developers need help to solve the current housing crisis - by David O'Sullivan

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We all look for advice and direction, we consult our peers, read commentary of industry experts and make decisions for our business. Whatever we consult for statistics, sales trends, construction cost indexes etc., are mostly a snapshot in time. The conclusions we draw on the opinions of others as they relate to the data from surveys, government records, banks and more.

The news locally is all about the housing crisis or the dropping value of office properties. The state government has a large housing bill which has many pieces designed to increase housing supply, affordability and expand opportunities as well as pay for improvements to the present stock of affordable housing. The federal government now realizes that they need to act too and not leave housing issues to be just dealt with at the local level. There seems to be a conflict going on with interest rates. The Fed wants to keep them steady to fight inflation, but may not realize much of inflation is housing costs and caused by high interest rates for homeowners and real estate investors. The good news is the economy remains strong and many fears we had at this time last year have diminished. The likelihood of the U.S. economy entering a recession within the next 12 months has now dropped to its lowest level in two years (33%), according to the latest quarterly economists' poll from financial information website Bankrate.

We are still hoping to see an uptick in housing starts in the country. We are not seeing it especially in the Northeast. Last year ended on an optimistic note, but persistent headwinds still exist to keep 2024 from getting the housing market back to pre-pandemic levels. At just a little more than four million homes sold during 2023, the existing-home market registered its weakest sales pace in 28 years. Persistently elevated mortgage interest rates, low inventory of for-sale homes, and lack of affordability all contributed to this collapse — a decline of 18.7% (about five million sales) from 2022 and 33.2% from the 2021 sales rate of 6.12 million. Annual sales of five million is historically the balancing point for existing-home sales for a strong market or a weak market. If the Federal Reserve is able to gain the upper hand on inflation and the 30-year mortgage interest rate drops to 6% or less, sales should reach their 2020 level this year.

The weak multifamily market is caused by many factors, the cost and availability of credit, softening rental markets, rising vacancy rates, and more than one million units under production — a level not seen since 1973. This has been coupled with a continued rise in construction costs and more stringent codes resulting in projects just not being penciled out.

The single-family market is not faring much better. The median new-home sales price is expected to increase just 2.2%, while the median sales price for existing homes is expected to increase 3.1%, which will maintain a spread between the new and existing median home price. The existing home market has been suffering from lack of inventory. For the conventional 30-year fixed rate mortgage, Wells Fargo forecasts that the annual average rate will decline from 6.8% to 6.45%, which will stimulate both new-home sales and existing-home sales and existing-home inventory.

Another interesting fact in this market is that those who have bought homes during the last year are unhappy. The report in the 2024 edition of its American Home Buyer Report found that 82% of surveyed buyers have regrets about their purchase. Homebuyers cited several reasons for this, including affordability issues, making too many compromises, and more.

We need to see the interest rates drop for an improvement in the real estate markets in this coming year. That will also help the housing crisis we are all seeing and allow developers to start up projects again and contribute to the solution.

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