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2024 mid-year residential musings - by William Pastuszek

August 09, 2024 - Appraisal & Consulting



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Halfway through the year, dealing with high mortgage rates, thin inventories, and unsatisfying amount of sales data, make understanding residential markets as challenging as ever. Let's take a mid-summer step back and take a look at the state of markets. Following is a discussion of residential market issues.

Residential Markets. The Warren Group tells us, "Massachusetts single-family home and condo sales declined last month on a year-over-year basis as median sale prices reached new all-time highs." The June report noted that the number of home sales decreased by 8.9% from June 2023. The median single-family sale price increased 8.1% on a year-over-year basis to \$665,000, up from \$615,000 in June 2023 – a new all-time high.

Only western Massachusetts counties showed median prices below \$450,000. Hampden, Franklin, and Berkshire counties showed median prices of slightly over \$300,000. All those counties, however, showed strong price appreciation with lower sales volumes. Worcester, in the middle, was at \$450,000 exactly.

The Warren Group opines that mortgage rates have contributed to slower price growth and also contributed to low inventories. It's remarkable that housing prices are as high as they are statewide. The very large divide in prices between the western and eastern parts of the state is very indicative of the two "states" of Massachusetts.

MLS data shows the average price is up 7.6% year over year. Inventories are up slightly and the number of sales is flat. Marketing times are down slightly. The sales price versus listing price ratio is +-102%. Months of housing supply is up from 1.06 to 1.70.

The Case-Schiller Index is currently at a high of 324. The last time the index peaked was in July 2022; it declined thereafter as the market adjusted to higher interest rates. In 2020, the index was at 215. This is another indicator that shows the dramatic changes in the housing markets.

The NAR affordability index as of January 2024 was 105.7. Affordability has decreased since then to 93.7. The last time it was that low recently was in October 2023 when it was 91.4. Lower index values indicate less affordability. Affordability in Massachusetts is lower given its higher prices.

US News and World Report ranks Massachusetts as #46 in affordability behind New Hampshire, New York and Washington but ahead of New Jersey, Hawaii and California.

High prices have persisted even in the face of record mortgage rates and suggests there isn't much of a bubble in the housing markets. New housing creation helps ease inventory and demand woes but there isn't much land and the price of land drives prices out of the realm of affordability in most areas.

Residential Rents. Costar data shows that the current average overall rent is \$2,882 where a year ago the average rent was \$2,793 for an increase of slightly more than 3%. While rents continue to trend positively, the rate of increase has tailed off. Observers report greatest pressure on the non-luxury segment as Class C accommodations have seen losses in the housing stock due to redevelopment and upgrading. Affordability is a serious concern both in urban and suburban markets. Rural markets are underserved with affordable rental housing as well.

Market rents in Boston are among the nation's highest, trailing only a handful of metro area. Vacancy has increased but not significantly.

Housing affordability is a major issue in the Boston Market as in many others. No easy solutions exist. Creative zoning and planning would help but these changes won't take place immediately, especially in places where developable land exists. Suburban locations represent the greatest barriers for affordable housing creation and 40B's are not a complete solution.

Conclusions: Expect to see continued tight inventories – but with slackening occurring – and ongoing buyer demand in the current interest rate environment. If rates were to come down dramatically, it may unlock pent up supply and demand. Sellers who need to replace their current housing would put homes on the market and there would be a ready supply of buyers who, with lower mortgage rates, find that their housing dollar is worth more.

Who knows what might happen to pricing if mortgage rate spillways open. Will the 9% price appreciation accelerate? Will sales volumes increase? In Boston markets, the option of building a lot more housing isn't all that realistic. There just isn't that much land in the core counties. So, will that touch off massive development in the western counties? Fair question, but why didn't that happen prior to the run up in rates? Creation of affordable housing is key to continued growth and stability in the Commonwealth and the issues will be further explored in subsequent columns.

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