With incoming administration comes questions - by David O'Sullivan

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David O'Sullivan

How do you forecast what will happen in 2025? The questions that come up with the changes in Washington with a new president make any forecast potentially wrong. Will there be tariffs which up end the economy? Will the tax cuts be renewed? Will there be new tax cuts which benefit the real estate industry? Will there be enough workers to build or renovate the buildings? What will the Fed do with interest rates? All these factors can change what may happen in 2025. So what does a real estate developer do who has to look at what they plan for the next year?

Things were supposed to be simple in 2025, with a “more of the same” economy chugging along at a decent clip without too many danger flags flapping in the wind. No big changes would be good but is a holding pattern good for business? There are six major items to watch as the year unfolds: The housing market, mortgage interest rates, return to office, consumer spending, the incoming administration, and stock volatility.

The housing market is stagnant now due to lack of inventory and at least in the Boston area less new housing being built than just a couple of years ago. The future looked bright for the housing market as recently as September. The Fed was cutting rates, inventory was loosening, and consumers were engaging with the market. But the expected drop in mortgage rates didn’t happen — mortgage rates are higher now than they were before the cuts. So much for consumer enthusiasm. Outlook for the housing market in 2025 is more supply, a modest improvement in sales, and a complicated mortgage market.

Let’s talk about mortgage rates. When the Fed changes the federal funds rate, mortgage rates tend to follow. But, hey, they don’t always. That’s because mortgage rates are ultimately determined by investors. While the Fed won’t “guess, speculate, or assume” on what the Trump administration might mean for the market, investors will go ahead and do all three. Their investment decisions are pushing mortgage interest rates higher. There is a question of when and if the Fed will make another rate cut.

The return to office movement is in the news. There seems to be mixed feelings and actions by companies of this subject. Some have downsized their office space and do not have facilities to bring their workforce back into the office. Many are waiting to see how the market shapes up as loans become due and higher costs conflict with lower rents in the commercial real estate sector. The CRE market in 2025 will test patience, discipline, and strategy. Interest rates are unlikely to ease, liquidity remains constrained, and operating costs are climbing with no relief in sight.

Consumers represent 70% of the economy and are a big reason the economy is holding up. We know that a lot of the spending has been fueled by depleting our savings accounts and taking on higher levels of debt. Will consumers finally crack in 2025? That will depend, in part, on what happens to the economy. The good news is that jobs are still being positive and wage growth is meeting or exceeding the rate of inflation.

Tariffs and deportations and tax changes and talk of a 51st state, what next? The policies implemented by the incoming administration could have a profound impact on the economy, Fed policy, the housing market, global relations, and more. Pro-growth policies, potential changes to tax policy, and a domestic-first attitude could help drive economic growth but could also lead to higher debt levels and higher interest rates. Tariffs, mass deportations, and higher interest rates disproportionately impact the housing industry. We hope the efforts for deregulation benefit the housing industry, but other factors may create turmoil and added costs to already rising prices.

Stocks are only owned by less than 20% of the American population, but movements in the stock market can impact consumer confidence and therefore consumer spending. While the broader market rallied and is still showing signs of life heading into 2025, the S&P Homebuilders Select Industry Index barely kept its head above water last year. What will this year hold for the stocks in a choppy market?

Three weeks into the year and things have become a lot more complicated. There's no shortage of wild cards to watch in 2025. The Greater Boston market remains one of the strongest in the country, relatively speaking, compared to most major cities, as jobs are still being created and our universities continue to attract new people. Our high housing costs are an impediment to keeping those people and jobs in the area, but we have a diverse job base which is attractive.

It should be an interesting six months as all this shakes out.

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