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OPINION

HOUSING MATTERS

Supply And Demand: Is It Working?

Influx Of Luxury Units Contributes To Rent Drops In Older Buildings

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SPECIAL TO BANKER & TRADESMAN

For many years, even as the supply of homes has increased gradually in Eastern Massachusetts, the continuing demand was so great that housing prices and rents seemed to unrelentingly increase. They dipped in the Great Recession but have continued to march upward.



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Because of this, some began to question this economic principle of “supply and demand” in the context of trying to understand the Boston housing market.

They argue that the notion of supply and demand just doesn’t apply here. From Central Square in Cambridge to Jamaica Plain in Boston, opponents of new housing have cited the high prices of newly built units and opposed new projects, charging: “Supply and demand doesn’t work in our neighborhood.” They contend that building more housing – and particularly expensive housing – would do nothing to lower the cost of housing in their neighborhood.

Others believed that perhaps unknown factors were undermining our ability to get housing prices under control within the context of the strict supply/demand

framework. Believing perhaps that the Boston housing market was too quirky or too fragmented (for example, with its neighborhood submarkets), they too advocated for non-market-driven solutions to create housing.

And these alternative solutions have been pretty effective. They include creating opportunities for the infusion of direct subsidies such as government assistance to renters or to owners/developers, who can then charge lower rents. They also include creating opportunities for new housing developments to “cross subsidize” among units within a particular housing development, using things like density bonuses (whereby the prices of market rate housing can offset the cost of creating affordable units). These are all good tools to moderate prices case-by-case, at least until market forces kick in – which just might be happening.

A recent survey by Boston’s Department of Neighborhood Development suggests that supply and demand may prove to be working after all.

As Boston seeks to create 53,000 new housing units by 2030, the city’s Department of Neighborhood Development has been keeping close track of progress. Through the end of last year, over 19,000 housing units were completed or in construction, and another 21,000-plus are in

the approval process.

New housing is expensive to build, and the new housing units are expensive to rent. The good news is this: Rental listings the department collected from 15 neighborhoods in Boston indicate that rents in older housing actually declined from 2015 to 2016.

Citywide, rents in housing units that were built before 2011 went down an average of 4 percent, the survey showed, even though rents in the new housing went up by a whopping 18 percent.

It may seem inconsistent that rents are rising at double-digit rates annually in high-end, newly built housing, yet stable or falling in the “older” buildings. But housing experts say it’s all connected.

Travis D’Amato, managing director of JLL Capital Markets, is very familiar with the multifamily market. He said that of the 178,000 rental units of all types in Boston, half were built before 1945. That leaves a lot of room for renters to “upgrade” to newer luxury space that is suddenly being produced in large numbers.

A recent JLL report noted that Boston’s rental market continues to be healthy, but with so much new supply in new buildings rents in the larger properties have been flattening out.

This year a record 2,492 units are expected to be delivered in Boston, after 5,300 units opened their doors in 2013 to 2016.

That likely means rent growth will continue to be flat as these new units are absorbed, presumably boding well for renters in older apartments.

Although asking rents have not declined with the huge supply of new units, experts in the housing market like Kevin Ahearn of Otis & Ahearn say the softening is real. That is, managers are offering a month of free rent in the first year to new renters or will pay a broker's fee.

"I don't see or expect any slowdown in that, with everything that's been built," Ahearn said.

Big picture, Boston still has the lowest percentage of modern, large apartment buildings in the country, at 14 percent of all its housing. None of the other top major urban markets has less than 20 percent. The Boston area has only been catching up with the rest of the country.

If more and more luxury units downtown are leading some moderation of costs for housing in Boston neighborhoods, that's welcome news. ■

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