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HOT STREAK

## Economists Forecast Strong 2017 In Greater Boston

Melrose Named Hottest Market In Massachusetts

By [Jim Morrison](#) | Banker & Tradesman Staff | Nov 27, 2016

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The Greater Boston real estate market is on track for a strong finish this year and next year will bring more of the same, Jonathan Smoke, chief economist at Realtor.com, told an audience of hundreds of real estate professionals at the Federal Reserve Bank in Boston earlier this month.

“The fundamentals of Boston are strong,” Smoke said. “It’s one of the healthiest markets in the U.S. There are no signs that would point toward a slowing down of anything. You’re working in one of the best markets in the country, certainly the strongest in the eastern half of the country.”

Northeastern University economist and professor Alan Clayton-Matthews agreed, but pointed out that the view from the rest of the state isn’t quite as rosy.

“The economy is great in Greater Boston, but much less so in the rest of the state,” Clayton-Matthews said. “Boomers are retiring, but Millennials entering the workforce are offsetting the loss somewhat.”

Smoke cited strong consumer confidence – buoyed by low unemployment – as one of the factors contributing to a strong 2017. Unemployment in the Bay State is down to 3.3 percent, well below the national average of 4.9 percent, and it’s likely to continue, said Clayton-Matthews.

“Globalization trends favor Massachusetts employment due to its highly educated population,” he said.

### Millennials And Interest Rates Will Play A Role

Greater Boston also has a higher concentration of Millennials than most other markets, and they are expected to enter the real estate market in big numbers in 2017.

“The pipeline of buyers has never been higher,” Smoke said “There are 84 million Millennials in this country who are poised to enter the market at a time when consumer confidence is near an all-time high.”

Millennials are a very distinct cohort of buyers, Smoke said, and to be successful, real estate agents and other professionals are going to have to get to know what they’re looking for and how these high-earning young

professionals prefer to communicate. Their spending and saving priorities also differ from previous generations of buyers.

“The biggest obstacle for Millennials is not going to be their income,” Smoke said. “It’s going to be the down payment. The average down payment in Greater Boston is \$73,000.”

Home prices in most Greater Boston communities have exceeded their pre-crash highs, by a wide margin in many cases. The high cost of housing is concerning, but Smoke doesn’t expect the lack of affordability to dampen the strong 2017 market, despite expected rate hikes that will make current home sale prices even less affordable.

In his portion of the presentation, Clayton-Matthews cited a Wall Street Journal poll in which 81.7 percent of respondents predicted the Federal Reserve would raise interest rates in December, and “that number has gone up since the election.”

Smoke agreed that modest hikes in the federal funds rate are very likely in 2017 and added that mortgage rates could rise substantially without significantly impacting affordability.

“We have ended the era of incredibly low rates,” Smoke said. “Mortgage interest rates were too low this year. Rates could go above 5 percent before we return to what economists consider ‘normal’ affordability.”

Both economists agreed that the high cost of real estate and lack of affordable housing are concerning. However, both were very clear that they did not think the Greater Boston real estate market is in another bubble, like the one that burst a decade ago.

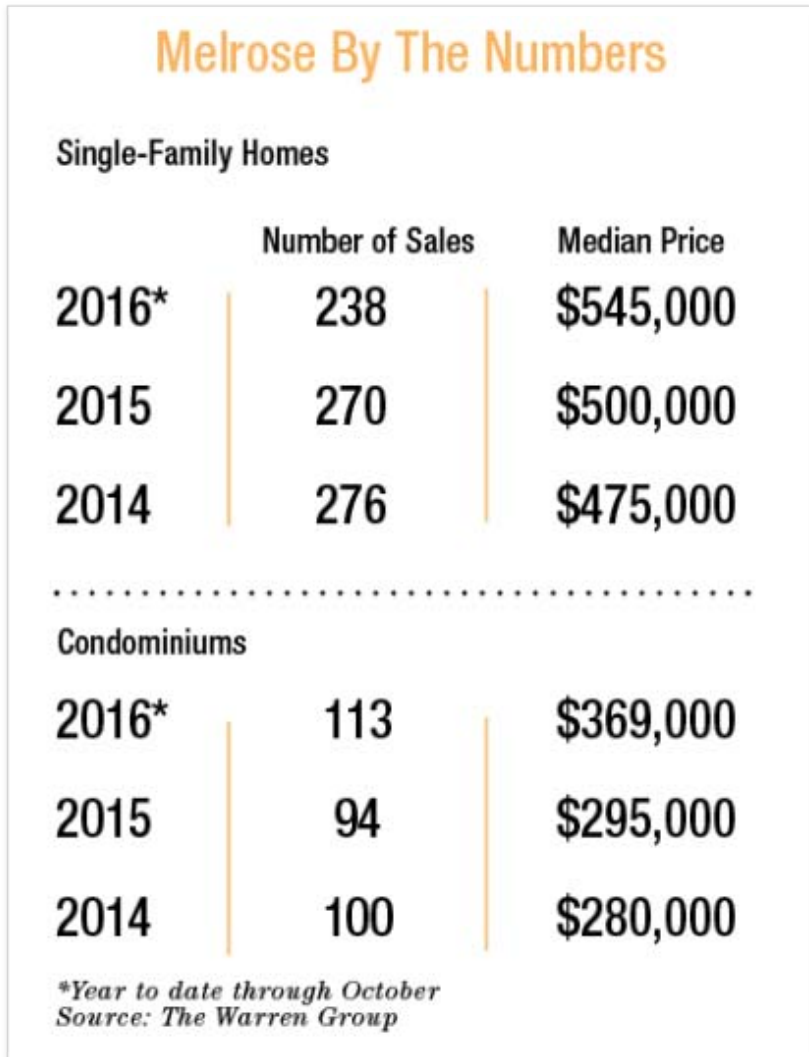
“Before, we overbuilt,” Smoke said. “Today, we’re underbuilding. More people want homes than we have homes for them to go to. Also, there was more speculative flipping prior to the last recession. And credit is much tighter today than it was back then.”

**Melrose Named Hottest Market In MA**

Smoke also announced the 02176 ZIP code in Melrose as the hottest market in the state for the second year in a row and one of the top 10 in the country, according to Realtor.com. The calculation for the ranking includes user activity on Realtor.com and average days on market.

For the skeptics out there, agent Lisa Howitt, who has been selling real estate in Melrose for over 30 years, says Melrose is as hot as it’s ever been. Buyers tell her that commuter rail and Orange Line access, strong schools, parks and green spaces and walkability are what draw them to the 4.8-square-mile city six miles north of Boston.

“That hidden gem nickname we’ve had for years still rings true,” Howitt said. “Buyers say, ‘hey wow, I had no idea that



all this was here.' They're enchanted by the downtown [area]."

The market has been hot all year, especially in the fall, and the signs are everywhere.

"Inventory is still very tight," Howitt said. "If a house comes on [the market] in this city and it's priced and presented properly, it receives multiple offers time and time again. Agents are putting houses on the market on a Thursday and saying offers are due on Tuesday. Pre-offer inspections are becoming more common."

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