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# PINNACLE REPORT

## Wellesley/Weston Real Estate News

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Our 2018 year-end Pinnacle Report examines MLS 2018 residential property sales data in Wellesley and Weston and compares it to that from 2017. To provide context we'll provide an overview of activity in Massachusetts.

Statewide, year-over-year single-family sales transaction volume decreased a slight 1.5%, the median price rose 5% and homes sold 9% faster. The number of condominium sales was down just 2%, but the median was up 7%, and they sold 7% faster.

The Massachusetts economy remains strong. The unemployment rate is at 3.4 percent (the national rate is 3.7). The Bureau of Labor Statistics reported that from November 2017 to November 2018, the state added over 60,000 jobs. Rosalin Acosta, the Massachusetts Labor Secretary, said some of the biggest gains were in the professional, business, and scientific services sectors. There were lots of opportunities for those who are well-educated.

The sobering information is that homelessness in Massachusetts increased by 14% this year. That compares with just a 0.3% increase in homelessness nationally, according to the Department of Housing and Urban Development. Due to several factors, homelessness has increased by 38% in this state over the past decade and a great many of these homeless are families. Despite a generally healthy economy, Greater Boston is one of the least affordable areas in the country and that's a basic factor. You can read more about this deeply disturbing problem and the ways our state government and various organizations are actively responding to it, on many sites including mass.gov/help-for-homeless-people and mahomeless.org.

In sharp contrast, we'll review our towns (and count our many blessings).

## Wellesley - Single Family*

The number of MLS sales in 2018 declined 5% from 2017. The median price rose 4% and homes sold 25% faster. The rise in the median was a result of a 25% decrease in sales transactions under $1M and a 35% increase in the number of transactions over $3M. The entry-level sales decline can be attributed to several factors: 1) the continuing trend of entry-level buyers to choose homes in other less expensive towns where their dollar goes further; 2) there was an even smaller supply from which to choose; 3) these buyers are the most likely to postpone purchases when interest rates rise; and 4) there were more ***non***-MLS sales - homes not offered on the open market.

Not depicted in the MLS calculations on the chart were two more resales over $5M that were off-market. Also, in recent history, there have been at least 50% more high-end sales contracts than shown on MLS. These were for custom-built luxury new homes.

What happened to prices is the question that we're most often asked. As always, it depended on the price range of the house and its condition. Generally, the following emerged: home prices were flat or down slightly in most ranges up to $3M. However, at the higher price points, the MLS data doesn't tell the story. This is the custom home end of the market. Many of these buyers purchased their parcels (usually tear-downs) and contracted separately for the build of luxury new homes. In order to offer any accuracy on appreciation at this level, the amounts spent to build those homes would need to be added to the prices paid for the lots and included in the data. That's not an option as private contract prices that were paid to the architects and builders are not public information.

One of the more interesting occurrences this past year was the steep decline (down 40%) in sales of new spec-built homes. Demand remained high but there was a drop in supply that probably won't change as there was a decrease in both demolition permits (24% fewer) and new home building permits (29% fewer) in 2018. This is likely a result of the demolition delay bylaws that became effective during the latter part of 2017 and were in full effect in 2018, the deepening shortage of lots that meet builders' criteria, and increased regulatory issues that may impact profitability and, thereby, deter a builder.

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RESIDENTIAL PROPERTIES

The following data for single family properties was extracted from the Greater Boston Multiple Listing Service and includes the majority of fair market value sales in each town. (Non-MLS sales do not necessarily represent fair market value as these are properties that were not fully exposed to the open market.)

## YEAR-END MARKET COMPARISONS**

| | | WELLESLEY | | WESTON | |
|---|---|---|---|---|---|
| TOTAL NUMBER OF SINGLE FAMILY HOMES: | | 7,301 | | 3,361 | |
| | | 2018 | 2017 | 2018 | 2017 |
| $ 0 - 800,000 | | 24 | 31 | 10 | 19 |
| 800 - 1,000,000 | | 48 | 65 | 20 | 20 |
| 1,000 - 1,500,000 | | 112 | 115 | 47 | 62 |
| 1,500 - 2,000,000 | | 88 | 87 | 39 | 44 |
| 2,000 - 2,500,000 | | 32 | 34 | 15 | 18 |
| 2,500 - 3,000,000 | | 20 | 18 | 10 | 6 |
| 3,000 + | | 23 | 17 | 22 | 17 |
| Total Number: | | 347 | 367 | 163 | 186 |
| Avg. Days on Market: | | 70 | 93 | 130 | 137 |
| Median Sales Price: | ($) | 1,437,500 | 1,380,000 | 1,537,500 | 1,395,000 |
| Lowest Sale: | ($) | 420,000 | 600,000 | 410,000 | 445,000 |
| Highest Sale: | ($) | 5,357,000 | 4,662,500 | 9,200,000 | 15,600,000 |
| Total $ Volume: | ($) | 559,940,072 | 564,763,664 | 313,344,466 | 311,743,992 |

**Sales from January 1 through December 31

## Q4 2018 SALE PRICES
## AS A PERCENTAGE OF NEW 2019 ASSESSMENTS

(Averages based on town assessments as of January 2019)

| | WELLESLEY | WESTON |
|---|---|---|
| $ < - 800,000 | 108% | -- |
| 800 - 1,000,000 | 96% | -- |
| 1,000 - 1,500,000 | 109% | 114% |
| 1,500 - 2,000,000 | 107% | -- |
| 2,000 + | 107% | 105% |

-- Insufficent data

## Weston - Single Family*

Year over year, total MLS sales volume declined 12%, the median was up 10% and homes sold 6% faster. There were nine fewer MLS sales (and 30% fewer homes on the open market) priced under $1M. At the high-end of the market, there was an increase in sales.

Despite low supply, prices were flat for entry-level sales (for the same reasons as in Wellesley) and they remained flat at price points up to $2.5M. Above $2.5M both volume and prices were up. The Weston luxury market was exceptionally strong with sales showing remarkable price gains. The high-end transaction numbers shown on the chart also don't include several non-MLS resales as well as several custom-built homes contracted for well over $3M.

In 2017, new spec-built home sales represented 7.5% of the total transaction volume and the median price was $2.7M. In 2018, they represented 10.5% of the volume and the median was $3.6M.

## The Supply in Both Towns: Slimmer Pickings

In Wellesley, the overall available supply that was offered on the open market declined by 8% from 2017. In any given year that we've measured in the past, the number of 'tear-down' homes that sold directly to builders without being offered on the open market was roughly 30%. This occurs either when builders canvas homeowners directly or homeowners reach out to builders. This past year, that percentage jumped to 44%. About a quarter of those sales were of smaller homes that sold for less than $1M. We enter 2019 with very few homes on the market. There are just 43 available properties in all price ranges. That's down from a scant 53 a year ago.

In Weston, the total number of homes that were offered on the open market declined by 37%. (The only price range that had a consistent supply year over year is that from $2.5-$3M.) We enter 2019, with a very low supply (42) - down roughly 10% from a year ago. This decrease is distributed evenly across every price range.

In addition to builders and homeowners contacting each other directly, there are other factors contributing to shrinking MLS numbers. Locally, there has been an increase in the practice of real estate agents offering 'off-market' listings. There are various reasons an agent might do this, but unless a property is offered on the open market, there is no certainty that fair market value was obtained for a home seller. As most experienced agents will tell you, the buyers who most often pay a premium for a home are 'out-of-town buyers with an out-of-town agent.' Those folks never see non-MLS listings.

## The Broader View: Low Supply and Other Impediments

While interest rates dropped in early January to a nine-month low, throughout most of the year, higher rates were a major impediment for both entry-level and trade-up home buyers everywhere. For entry-level buyers who are already struggling with low supply, a decrease in allowable deductions, and possible student loans, the rate increase was one more significant obstacle to home ownership.

Mid-range, trade-up buyers have been hampered by higher interest rates as well. The lower the rate these homeowners have on their existing mortgage compared to current rates, the harder it is for them to trade up. This is called the 'rate lock-in effect.' Homeowners who purchased their home about a decade ago are likely to have a rate around 3.5%. The average 30-year fixed rate is now about a full percentage point higher (and that's after the drop in early January). Rates are expected to rise even higher later in the year.

*2018 condo and townhouse sales data can be found on the Pinnacle website, www.PinnacleHouses.com.

## The Broader View (con't.)

According to Albert Saiz, Associate Professor of Urban Economics and Real Estate at MIT, another factor slowing sales in trade-up price ranges is the Tax Cuts and Jobs Act. Signed into law on December 14, 2017, this legislation limits the mortgage interest deduction for homeowners who purchased after it was passed. Prior to its enactment, the interest on a mortgage loan was deductible up to $1M. It is now capped at $750,000. Coupled with higher interest rates, this means the cost of trading up increased considerably. According to a new study by First American Bank, homeownership tenure has reached its highest level in 18 years - it jumped 10% over the past year and it's now up to 10 years. This trend is expected to continue.

**"All indications are that we have a housing shortage. If you look at population and job growth, it's clear that we are not producing enough houses." - Lawrence Yun, Chief Economist of NAR**

According to the National Association of Home Builders, home-builder confidence fell to its lowest level in more than three years by the end of 2018. Several of the big home builders downgraded their sales forecasts for 2019. "The market has slowed," said Robert Dietz, chief economist for NAHB. "We've revised our forecast down. Builders face significant headwinds because of the "five Ls" — labor, lots, laws, lending, and lumber. A labor shortage, lack of buildable lots, more restrictive regulations, the cost of construction loans and tariffs on supplies such as lumber have all increased costs." Nationally, NAHB predicts 2019 single family construction to be about 900,000 units. "Based on demographics, that's 200,000 to 300,000 less than the market could absorb and well below the average number of starts pre-housing crash. From 2000 to 2003, the average was 1.3 million."

Builders have taken a lot of heat for not building enough homes or building primarily luxury homes. But Dietz said there has been an uptick in townhouse construction, a more affordable single-family option. New townhomes, condos, and cluster homes that are smaller, more convenient, energy-efficient and affordable meet the needs of the two largest segments of the population – seniors who want to trade down (and tend to be relatively low-impact on a town's systems) and the young Millennials trying to enter the market. Wellesley is developing and evaluating plans to add a considerable number of housing units that will help fill these voids, and Weston is adding some as well. Visit the town websites to learn more about these projects.

**Our local housing supply should rise during Q1 as we approach the Spring Market. Despite the increased hurdles, many buyers are now actively looking and anxious to buy in our towns.**

**Whatever the market conditions, we can develop a powerful and effective plan to sell your property.**

**What's *your* home worth in today's market? Call us for a confidential, complimentary evaluation.**

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**What's happened to home prices?**

**Where is the supply?**