Growth is great, but where will workers live?

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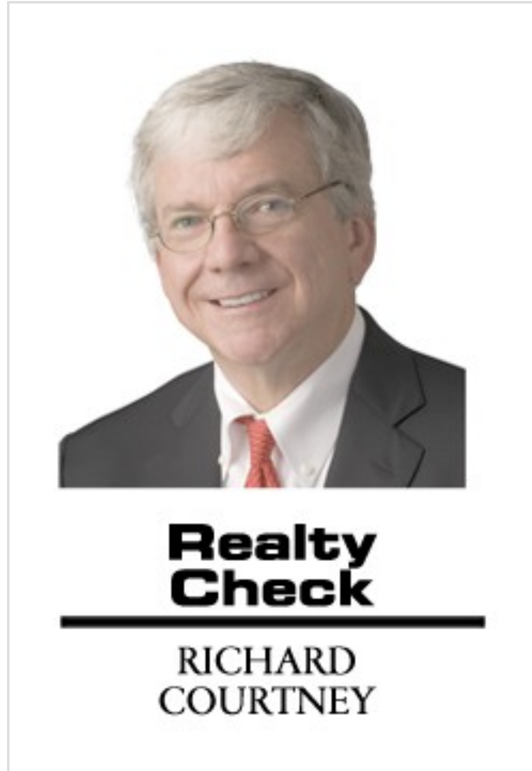


For the past two years, developers, property owners and Realtors alike have been treated to what some call the best real estate market in the country. Sellers are realizing astronomical returns on their investments as they shed properties that they have been strapped with for years.

As the market was bourgeoning that last time – 1993-2008 – buyers purchased homes in great numbers with no concerns over whether their houses would sell – the only question being for how much.

As the wheels ground to a quick halt with the Great Recession, a number of sellers were caught without chairs the day the music died.

Now, prices are back to where they once belonged, even higher in some cases, and many sellers are breaking free from the yokes that bound them. Others, having made it through the hard times, have settled into the landlord role and have chosen to carry on. But at least now they have a choice.

So for homeowners and investors, property owners of all land, lots, commercial, residential, mufti-family, all is well.

There are some who have been left out, and that is a big, big problem.

That segment of the community is now called workforce housing, formerly known as affordable housing.

Danny Herron, president and CEO of the Nashville Area Habitat for Humanity, says the current situation is critical, adding something must be done to address the lack of workforce housing.

“The window is closing,” he says. “and once closed, cannot be re-opened.”

Workers are required for all those hotels and businesses opening downtown, and Herron wonders “Where are they going to live?”

He notes that there “is all of this international money coming into town and a number of developers from all over the country are investing here, and that they are buying properties every day. Once those properties are lost, they are not coming back.”

I think he is on target. John Brittle, founder of Infill Nashville, stated last week that his team has more than 150 properties coming on the market. While Brittle is to be commended for his success – and he is our ally, not our enemy – his statement reinforces Herron's fears.

Herron notes that in Inglewood and East Nashville, in the not so distant past, "there were homes available for $100,000, and those are now $300,000."

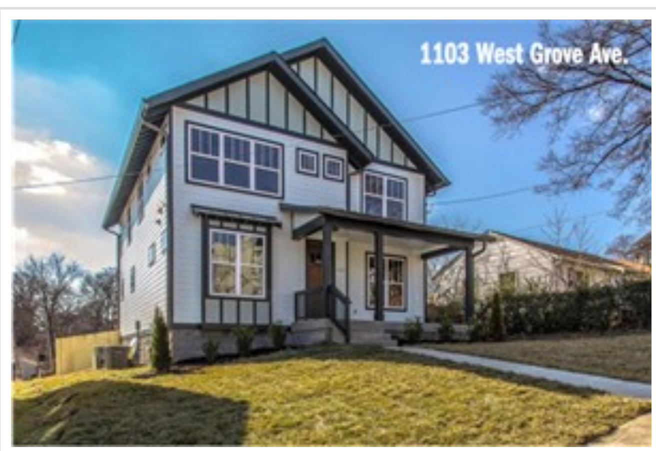
Nashville Area Habitat for Humanity is "out of Inglewood forever now and working through Madison," he adds.

If similar growth continues for another year or two, Herron says, his group will be driven farther and farther out of downtown, and that those employed to service the new companies will be unable to find affordable housing anywhere near the downtown area and be forced to commute from places such as Antioch in the far reaches of the city, creating more traffic issues for a city already suffocating.

The new mayor will not be without opportunity.

Sale of the Week

Two of Nashville's best Realtors teamed to sell 1103 West Grove Avenue last week when Tim Kyne of Keller Williams Realty and Michael McKee of adex!homesellers teamed to sell Tim's listing.



In his comments, Kyne screamed "SINGLE FAMILY" to let the world know that this was not a horizontal property regime (HPR) and that it was "new construction in red-hot 12South."

It's actually closer to 11th Avenue than 12th, but there is no 11South.

Kyne described the home as having "premium design finishes with a large kitchen island, gas range, stainless steel pro appliances, open mudroom,/landing area, hardwoods, fireplace, built-ins, a tankless water heater" and much more.

In short, he hit every hot button for today's buyer. And while some of those features may have been amenities in the past, they are necessities in the 12South market today.

The seller bought the lot last June for $227,000. At that time, a 768-square-foot structure occupied the land, and it sold for $295 per square foot. In contrast, the newly constructed home only sold for $229 per square foot. So much for the price per square foot debate.

Of course the $295 per square foot structure was built in 1958, and the most recent sale prior to the builder's acquisition was for $35,000 in 1988. The house that was demolished lacked any of the upgrades featured in the new home.

This scenario is what knocks the affordability out of the picture.

If a buyer who intended to occupy the 768-square-foot home had paid $227,000 and then added a similar kitchen, it would have cost $30,000 to $60,000, the fireplace $10,000, the master bath another $15,000 at least, and rewiring, plumbing and HVAC another $15,000.

So the 768-square-foot structure would have a minimum of $70,000 in renovation to go along with the $227,000 for a total of $297,000, or $386 per square foot. That’s assuming that no walls would have needed to be moved or removed.

With the downtown high-rises, we have seen that 768 square feet will go a long way if properly designed, and that $386 per square foot is a price that people will pay for a totally renovated home.

But, the fly in the ointment is that appraisers will not appraise 12South properties for $385 per square foot, so lenders will not loan enough money to make this happen.

The lender would have made the loan on the original $227,000 assuming it was not totally dilapidated, but the $70,000 for the renovation would be out of pocket money. The owner also would not be able to sell the property for the amount of cash invested for several years, or until the area appreciates by 50 percent.

Richard Courtney is a real estate broker affiliated with Christianson, Patterson, Courtney, and Associates and can be reached at richard@richadrdcourtney.com.