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End of summer check in: Continues to be strong for housing and CRE markets - by Bill Pastuszek

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This year continues to be strong for housing and CRE markets. Buyers are still willing to pay going rates for real estate of all kinds. The seller's market continues. Yet we worry about being surprised (again) by that market turn, that inflection point, that nobody would see coming. There is wide appetite for development projects. Many cities and towns are experiencing what can be termed positively "transformational" development.

While we are used to seeing this type of development occurring in places like the Seaport District of Boston and throughout Boston neighborhoods from Allston to East Boston, it's still amazing to see the city scape changing so rapidly and, in many ways, organically, i.e., as if the new construction was always meant to be there.

Many suburban communities are experiencing hitherto unimagined commercial and residential development. Mixed use and the urban village are the flavors of the decade, of this generation. Though many of these larger scale developments were years in the making, they finally sprung up in places like Westwood and Wayland to name just two. Consider also ongoing projects like Pine Hills and compare them to the up and coming Red Brook, both in Plymouth.

As core city prices have spiraled up and out of the reach of many buyers, secondary markets have blossomed. Soon they show pricing that makes them less affordable. This is in turn stimulates developers to look further out, to be more creative, to consider just a little more risk, to get projects done.

This leaves markets that so far have not shown the kind of growth seen in the “major” development nexuses. These can be outliers or urban locations that have been so far overlooked in this expansion. Expect to see stronger development pressure on industrial locations. Industrial uses within Rte. 128 seem mostly destined to be redeveloped.

Will rising interest rates serve to moderate market activity? So far there hasn’t been much of an effect. On the other hand, rates haven’t risen that much. The 30-year rate hasn’t move much this year and the same is largely true for commercial CRE rates. This is probably due to nice spreads and competitive pressures.

A useful bit of comparative information is the Warren Group’s August press release that states that the “median sale price for a single-family home hit its highest point on record for any July in history… the median sale price of a single-family home in July increased 3.7% to $382,500, up from $369,000 last year. This marks 16 straight months of year-over-year price increases going back to April of 2016.” Volume was similar to that of July 2016.

There doesn’t appear to be a trend toward raging price or rent appreciation. While rents and prices are still rising, particularly in some of Boston’s core markets, there is some consensus that the rate of rental increases has topped off. Price appreciation overall is moderate, except, again in the core markets where there is strong demand and much new construction. Rather than say it’s a runaway market, there is some underlying logic to the housing market trends. Similarly, the Case Schiller Index for Boston shows a moderate increase.

Where does the outward spread of development take us? How far, how long? When we see the stirrings of rejuvenation in outer-ring and out-of-ring markets like Framingham Center, Worcester, and the results of UMass Lowell’s continued investment in the city, do we worry about these last in markets crashing first or do we applaud the developers, buyers, tenants, lenders, and appraisers for taking bold (or bolder) moves that provide economic stimuli to municipalities? Progress entails some risk and imagination. Will other neglected markets benefit from the current expansion, or, at least be ripe for re-imagining in the next up cycle?

The summer seemed short. It started positively: there wasn’t a drought here. The eclipse was a unique, hopeful event.

Then there is Houston. CoStar reports “there are more than 12,000 properties containing 433 million s/f located in the [FEMA designated] floodplain. This includes 167,281 apartment units, 60 million s/f of office, and 73 million s/f of retail space. In addition, 11 hospital buildings, including a 1.1 million s/f building at the Texas Medical Center fall within the 100-year floodplain.” Somebody already said, “watch gas prices and building material costs skyrocket…”

There is great sadness but much hope. All of us have the opportunity to work together and create something better in the end out of this tragedy. Events like this remind us that it’s not just about the numbers and the real estate but about the human beings that live and work in and on the real estate.

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