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Top trends in the Mass. commercial RE market: rents rising, vacancy lowering and spec building

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Although the real estate recovery is slow, the commercial real estate market is showing definite signs of improvement. As a mid year review, the multi-family market sector continues to be central to the economic recovery. Rents have risen, on average by 5% and vacancies have dipped to 4.3%. Apartment construction has increased significantly as a response to the strong rental demand.

The office market has almost fully recovered from the economic downturn and downtown Boston rents have actually started rising for the first time since the pre-recession economy. With the vacancy rate hovering around 10%, for the first time there are a number of speculative office projects being considered.

The suburban office market is also beginning to see a recovery with an average of 12% to 14% average vacancy.

The Massachusetts retail real estate market continues to be in the top 15 in the country. Vacancy continues to drop even in light of new construction of centers.

This overall improvement in the Massachusetts real estate market is reflected in some good things happening, according to the National Association of Realtors. Here are some interesting emerging trends in the Massachusetts commercial real estate market.

With the apartment sector continuing to be the bright spot in commercial real estate, much of the opportunity comes from this sector.

First, to help solve the affordability issue of Boston's housing, micro units, or compact apartments of less than 350 s/f are being built in the Seaport District. This new construction allowed by the city of Boston is being tested in the more expensive Seaport District and only to determine its feasibility. If there is market acceptance, micro-units could prove to be an opportunity for not only those with modest incomes who want to live in more upscale areas of Boston, but also for creative real estate developers.

An indication of the upswing in the housing market is the increased interest in 40B, affordable housing and the 40R, smart-growth housing projects. Thousands of multifamily residential units are in various stages of development throughout Massachusetts in towns such as Marblehead, Norwood and Milton. These developments provide opportunities to developers for potential incentive payments and zoning relief while providing the creation of additional affordable units for the municipalities.

With an average apartment vacancy rate, state wide, of 4.3%, multifamily housing continues to enjoy a strong demand and will through the next few quarters into 2014. This seemingly good news has encouraged new construction of apartment units. Consequently many new units are being completed and will be coming on line within the next 6 months creating more competition in this housing sector. Once the supply of apartments starts to grow again, there will consequently be an

upward push on vacancy rates, putting pressure on the ability to raise rents.

Although many owners have been able to raise apartment rents over the past 2 years, the average annual increase, of 4%, is not what it should be given the low vacancy numbers. Rent growth typically should be stronger where there is such a tight market however until there is more wage growth and jobs created increasing rents will be restricted.

The repurposing of commercial properties in old and in some instances, declining neighborhoods in and around Metropolitan Boston has not only revitalized those areas but also increased the supply of multifamily units. This trend has also presented an opportunity for the construction of new office buildings. Residential redevelopment in outdated commercial and industrial sections of cities and towns have created a demand for construction of new office complexes in these areas. The companies occupying these new commercial buildings are doing so to take advantage of the talented employment base of workers who want to live in these rehabilitated sections.

Boston continues to enjoy its trend towards urbanization with over 2,600 apartment units being permitted in the last 14 months, in its neighborhoods. This movement back into the city for many has created other business opportunities and has created a new vitality in these city neighborhoods.

Boston's office rental rates are rising. One contributing factor is as a result of the city's robust recovery from the economic downturn. Named #6 by the Urban Land Institute as one of top real estate markets, Boston earns its place because of an increase in high technology, biomedical research and development employment as well as a relocation of these industries into this area.

Boston continues to be a talent Hub with its large presence in the education and health industry. As a result there is increasing real estate investment interest.

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