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Still managing in this diverse and changing CRE world from a contrarian's perspective - by Chris Mellen

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We have now entered the longest U.S. expansion in history, our 11th year of economic growth, according to the National Bureau of Economic Research. Granted we have a long way to go before we catch up with Australia who has gone 27 years without a recession, according to a recent CNBC report. Although we have a long catch up, our economy still looks good going into 2020.

How have we fared in the commercial real estate market in 2019?

We have seen continued improvement as I indicated in my 2019 economic forecast, earlier this year. The commercial real estate market was and continues to be led by the multifamily sector and rents continue to rise at a rate of approximately 4%; vacancy remains low at about 3% with a positive net absorption rate. Even with the increased construction in the Greater Boston area, it is not boosting supply enough to curb rent increases and add to vacancy.

According to a recent Lincoln Property market report, the Boston office market is above the pre-recession numbers. Boston office has a 3.8% vacancy and a $61 asking rent while Cambridge has surpassed Boston with a 2.6% vacancy and a $80 asking rent. No disputing, the Greater Boston market is doing well and remains in the top five markets in the country.

The suburban office market has improved slightly, with an average vacancy of 16% and as high as 21% depending on whether you are comparing the Rte.128 or tenant activity in the I-495 beltway. There has been an increase in activity in this last quarter primarily because of a reverse interest in the suburbs. Rents are more economical, the commute is easier and cheaper, suburban housing offers more value for the millennials forming their own families and suburban offices offer more tenant amenities.

According to Northeast Real Estate Business, demand for retail space surges in Boston despite the development along and in the Rte.128 loop. Metro Boston's retail vacancy rate is still hovering around 4% and is being fueled by a local rate of population growth and the fact that the average household income is approximately, 33% higher in Boston than the rest of the country, translating into more buying power. Food, fitness and entertainment type retail continues to drive positive absorption.

That brings me back to my contrarian thinking that regardless of the direction of the economy, we property managers are indeed uniquely positioned to prosper in all kinds of conditions. It goes back as I've said before to our basics of maximizing income and minimizing expenses and the various techniques, we have to do this. In that regard the market will remain positive and we will continue to be in a diverse and changing commercial real estate climate.

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