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Markets are rebounding: We all seem to now believe the worst is behind us - by Bill Pastuszek

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Markets are rebounding: We all seem to now believe the worst is behind us in terms of COVID-19 and the possibly recently concluded Great Pandemic. This is now the Grand Reopening phase. Things seem to be getting back to normal. But are they? It's normal, redefined. The principle of change has been at work.

Multifamily bears examining. Most urban Boston markets did not see a strong Fall 2020 market. Evidence suggests that demand has returned, particularly within areas with heavy student influence but concessions and landlord paid commissions became more noticeable: whether this a long-term trend remains to be seen. Vacancy rates dropped but vacancies are still well above historical levels. In the Boston market, absorption of new units was positive, but Boston markets have an impressive pipeline load, which will continue to pressure occupancy levels. Costar reports that +/-15,000 units are under construction, which represents about 6% of the existing inventory.

Residential markets have performed spectacularly, across the board, after an uneven startup. Those markets that were previously low demand, low visibility have rebounded strongly, as if to make up for lost time. Certainly there was a COVID effect – to many, the opposite of what was expected – but there are other factors that are driving the residential markets, some of which are long term and appear to be rooted in the Great Recession as a catch up to make up for several years of sub par new construction.

Construction materials availability has been spotty over the past year and lumber prices spiked sharply. Framing lumber prices increased well over 100% from the end of 2020. While prices seemingly have peaked, they remain high. Labor and trades are difficult to get and builders without contracts in place are at the mercy of the market. These costs have so far been able to be passed on, but can that apply long-term?

Some observers are beginning to forecast that the frothy housing market is in bubble territory. A stabilization, or correction seems to be only a matter of time. A great time to sell. Time will tell. For those who work in housing markets, staying on top of real-time data is crucial.

The lodging market is talked about with continuing concern. CoStar notes, that the Boston market has seen improvement each month in all key metrics so far in 2021, with occupancy gaining ground, and RevPAR steadily climbing its way back." While RevPAR is forecast to increase strongly in 2021, a return to pre-pandemic levels of RevPAR is not forecast until 2024-25. The recovery is highly dependent on the "full return" of groups, business travelers and international tourists. Cap rates show greater risk as investors are carefully evaluating acquisitions.

Office is another area of sensitivity. The Boston office market has some pipeline which will dilute demand and vacancy is not expected to return to pre-pandemic levels any time soon. With cap rate "expansion," and buyers and sellers both acutely aware of the consequences of the "working from home" movement and demand for different kinds of office environments.

Retail is now a well-worn tale of woe. Prior to COVID, retail was treading water at best. Certain retail sectors – food and beverage – were hit pretty hard and that industry will take some time to regain significant losses. However, labor shortages are occurring as recovery takes place, affecting some restaurants, and it's not quite clear why that is so. The labor market is completely another story, for another time.

It's easy to get bogged down in the metrics of the moment. What's the long view? There's enough data on COVID to draw some conclusions and gain understanding of buyer perspectives going forward. We have data, there's some rationality to behavior, there is stability.

During COVID, unheard levels of volatility took place in the stock market. If you didn't panic and sold during that time, things worked out pretty nicely; you took the long view and recognized the principle of change.

Similarly with real estate. Those who did not panic and made reasonable adjustments – or, perhaps did nothing major at all – saw markets adjust and stabilized. While many asset classes don't look and feel quite the same, those who took the long view are in a much better position to adjust to today's realities.

Real estate is a long-term investment. Investors look at it with long horizons. The principle of change is our guide: Understand change, embrace it.

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