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There are many aspects to our real estate industry and each has its ups and downs - by David O'Sullivan

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David O’Sullivan

We are now at the end of January and we have listened to all the year end best of for 2022. We have also heard many predictions for the year to come. But what is actually the state of the real estate industry? There are many aspects to our industry and each has its ups and downs.

The housing industry has been dealing with higher interest rates which affects affordability for buyers. The National Association of Homebuilders reports that the rise in interest rates from 3% to the present rate of about 7% results in an average of $1,000 increase in the typical monthly mortgage payment on the average home. In places like Boston with its higher sale prices the difference is even greater. This has impacted sales of new and existing homes with many buyers being unable to qualify for the mortgage they need to purchase a home. Across the country homebuilders who have orders to build new homes are finding their buyers no longer qualify for the mortgage needed to purchase. The one bright spot is the NAHB Builder Confidence Index rose in January to 35, ending 12 straight months of decline.

Rental housing seems to be a little less affected than home sales. One factor is apartments tend to be on a different timeframe with approvals and construction typically taking years instead of months. Many projects in the pipeline obtained financing before major bumps in interest rates and investors are still bullish on rentals. There is strong demand in many parts of the country as people are priced out of home purchases and still need a place to live. Rents have gone up across the board but there is a leveling off and even some signs of softness, especially in the luxury end of the rental market.

Boston's office market was rough for landlords throughout the past year. But the future looks like it is going to get worse. Real estate firms recently published fourth-quarter research reports, and availabilities are now higher than when the dot-com bubble burst in 2001, according to one firm, Colliers. Other firms are using similarly serious superlatives to describe the city's office market. CBRE found that 19.9% of the office space in Boston is available for rent, the highest level in 20 years, it said.

"Companies looking to expand or relocate will find a plethora of opportunities in 2023… this is firmly a tenant's market," Jeff Myers and Kelly Doonan of Colliers wrote in their report. The office market in Cambridge and especially the suburbs are on steadier ground, researchers found. Vacancies are increasing outside Boston, but not to record highs, according to the Colliers report.

A big chunk of the availability in Boston is driven by businesses putting up space for sublease, due to tech companies making large blocks available following layoffs. Other businesses are realizing that remote work in some form is here to stay and they don't need all the space they presently lease. It is reported there is 3.4 million s/f of sublease space available as an all-time high for the city. Businesses collectively are looking for less space. Smaller, shorter-term leases are on the upswing, Newmark said. Landlords are faring better in the suburbs in part because so many one-time offices are being converted to life sciences labs, lowering the available office space and propping up rents. If more buildings are converted to labs or residential in Boston, that could boost the office market. Researchers noted that Boston is faring better than many other U.S. cities, and that the same forces that drove the region's recent economic boom—its colleges and universities, its wealth, its quality of life will still be there as changes in the office market play out, they said.

Labs are big in Boston and growing in other parts of the country but how much space can this segment absorb. It seems that everyone is scrambling to develop lab space in Boston and its suburbs. The advantage of this is labs typically bring workers to the area and that promotes small service businesses and restaurants to open in the same areas.

The retail sector is all over the place in terms of what is happening but the overall trend is less space is needed and demand is on the decline. Malls are becoming more multifaceted places with housing and entertainment options being added to make them spaces which become great places to live, work and play.

So our industry does continue to see opportunities for growth and hope for 2023, but it is also difficult to find a sector which is not risky in today's environment.

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