



CELEBRATING  
55 YEARS

# nerej

## **The year ahead: What's 2024 going to look like? - by Bill Pastuszek**

January 26, 2024 - Spotlights



Bill Pastuszek

The recently concluded year of 2023, was not one that would necessarily want to be relived. Nothing felt certain or right. Residential markets experienced weird dynamics and commercial real estate performed unevenly and unsatisfyingly.

What are some of key factors and trends going forward?

The Economy. While apparently under control in the Fed's view, inflation will continue to be an issue particularly with consumers. Prices have a hard time going back down than they do going up – downward price inelasticity applies here – so consumers have to deal with elevated price levels going forward. A softer job market will limit wage increases.

The upward interest rate trend may be mostly done. The big question is when will rates start to abate?

The Fed may have helped pull off the much hoped for “soft landing.” However, as a smart person noted, “if things are so good, why do we feel so bad?” Fair question. Things could be a lot worse. This may be a case of markets and public sentiment acting weird and either not believing the numbers or not believing they are the right numbers to have belief in.

The stock market seems to be in good shape, CD rates are pretty high, the supply chain for the most part is in good shape, people are working (and getting the chance to do hybrid work), wage growth is outpacing inflation (CPI) in the short term, there is an adequate supply of new cars and prices have softened to a certain extent.

Real estate markets aren't so good, though. The current environment reminds us of how consequential the cost of money is in driving real estate markets.

CoStar notes: “Loosening financial conditions and an expected pivot by the Federal Reserve are making most market watchers far more optimistic than they were even a month ago. Oxford Economics, CoStar's macroeconomic forecasting partner, estimates fourth quarter 2023 growth to have been 2.3% (on a seasonally adjusted annualized rate), more than twice its expectations of a month ago.

Residential Markets. The Warren Group tells us, that “Massachusetts single-family home sales fell to a 12-year low in 2023 as limited inventory and record-high prices continued to strain activity.” Supply is playing catch up and not very well. Boomers aren't selling, stoking an “aging in place” movement. Potential sellers aren't selling, feeling cozy with low interest mortgages. Not a healthy market dynamic. Lower rates should eventually begin to break the logjam.

Unless there is dramatic movement on rates, the currently unbalanced fundamentals will persist.

Residential Rents. Costar notes that “year-over-year asking rent growth has dipped below 3% in

Boston, a level that is below the long-term average for the metro... but still above the national figure....Both nationally and locally, rents are expected to continue decelerating into early 2024 before the exhaustion of the supply pipeline helps to tighten the market later in that year. ... Market rents in Boston are among the nation's highest at \$2,760, trailing only a handful of metro areas. Vacancy has increased but not significantly."

Expect these trends to continue. Housing affordability is a major issue in the Boston market as in many others.

Commercial Markets. All the uncertainty has prompted some stubbornness on the parts of buyers and sellers. If rates come down, buyers may be more inclined to move. If rates remain high, motivated sellers and lower quality assets will likely move.

Multi-family and industrial markets remain favorites. But even industrial exhibits deceleration with higher vacancy and cap rates reported in the Boston market.

Industrial logistics sectors are to a degree tied to retail activity. Retail has also shown some slowing and may yet be due to receive the full effect of post-COVID factors. Sectors such as life science remain in vogue although less talked about than 2-3 years ago.

The office should continue to be dismal. Rents and vacancies in CBDs will continue their downward trend. The hot trend is in office to multi-family conversions: that trend should continue but represents a pretty partial solution to downtown office markets.

The higher interest rate environment will affect renewals and prompt renegotiations, write downs, and distressed property activity. Expect to see some movement in terms of underperforming, overfinanced properties during the year. The true effects of COVID are finally making themselves felt, particularly in lease renewals. Tenants not only want less space but insist on paying less rent for it.

Conclusions. Expect to see continued hesitancy and uncertainty in investment markets. In Boston markets, there isn't a huge oversupply of product, but buyers are being picky, so are lenders, and interest rates don't help cash flow. Expect to see a lot more focus on the ability to repay. Also expect to see some distressed assets.

As someone wise once said of CRE markets, "it's likely to get worse, before it gets better."

Bill Pastuszek, MAI, ASA, MRA heads Shepherd Associates LLC, Needham, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540