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What goes down will come back up - by Christopher Mellen

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This will hopefully apply to the 2024 office market as this segment of the commercial market has been most demanding and will continue to be so through 2024.

Nationally, the office market continued to have a challenging year with a gasping 19.2%, physical vacancy in the third quarter, according to Moody's Analytics, and effective rents deteriorating further, due to high tenant improvement costs and multiple monthly rent concessions at move-ins. This compared to an overall vacancy rate in the Greater Boston market reaching approximately 18.4% in the third quarter, 2023.

The good news is there is some encouragement in the office occupancy struggle:

Many companies in the post pandemic recovery, find that it is not easy to have their employees work from home. Studies and statistics have shown that productivity and creativity is higher when the staff works physically close to each other.

However, like other things there are consequences for a returning work force and especially in a tenant's market. Many have opted for efficiency of space, and this will continue to contribute to further downsizing of existing square footage upon lease expirations.

Another plus is our academic pipeline constantly producing new white collar talent, with a need for workspace.

And, New England's, especially Boston's, diverse commercial market led by the life science industries, medical and pharmaceutical companies due to their industry growth are seeking largerspaces. This market saw an increase in leasing activity with about half of the deals consummated in the last quarter 2023 ended with leases of over 20,000 s/f each. Significant improvement over leasing smaller chunks of space as we've seen over the past couple of years.

Finally, to fill vacancies, property managers and building owners are installing fitness centers with private showers, cafeterias or grab-n-go's and conference centers, to attract start-ups and to be competitive with newer buildings. Although costly, these capital improvements, have substantial property benefits aside from attracting new tenants. Notably, the cost of these amenities can be spread over all building tenants, many who will never set foot in the gym, increase in value of the building, and filling square footage lost by tenants who reduced their footprints.

Office Forecast for 2024

It's predicted that we won't see a drastic change in the office marketing 2024, although optimistically and giving credit to the Boston Real Estate Times which says, "As we adapt to the evolving workplace dynamics, we are still seeing a good amount of activity in both downtown and suburban markets." And activity converts into leases.

Speaking of optimism, the bright spots in our real estate market continues to be our multi-family and retail sectors although not aligning with national numbers. But as NAR chief economist Lawrence Yun remarked, “A lesson on the real estate market: Nothing’s normal.”

This holds true for the Greater Boston apartment market as it continues to outpace the national apartment market which has stabilized both in rent growth and vacancy.This is due to the construction boom of apartments, creating more competition in those areas. This is not the case in the Greater Boston market where new construction is not keeping pace with the national construction and high mortgage interest rates haveproven to be a deterrent to new home buyers who are opting to stay in their apartments, keeping demand high.

With 2024 continuing to be a robust market for apartment rentals in Greater Boston, rental growth will be at approximately 3% with some reaching 5% and vacancy at 4% as it was in 2023 another good year!

Interestingly this demand in the rental market, according to NAR, extends throughout New England with Providence and Hartford also in the top10 markets with the highest rent growth and lowest vacancy.

The other bright spot is our retail sector.

Nationally the demand for retail space, despite store closures, has increased substantially.This is due to the fact that post-COVID shopping activity has come back strong, in the traditional brick and mortar style. Lifestyle shopping centers have also strengthened this shopping preference, although e-commerce is still used by many.

In the Greater Boston retail market, vacancies have consistently remained in the low 4% range.This has been due to demand for space in prime suburban locations, limited supply overall sustaining demand, and low development activity or at least in comparison to national numbers.

Also contributing to the strong demand for retail space is all the new construction of multi-use properties where residents enjoy a work, live and play environment.

All this points to a 2024 forecast that the Greater Boston retail real estate market shows little signs of weakening and will continue to secure its place in the top 10 retail markets.

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