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## **What to look for in 2024 - by William Pastuszek**

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William Pastuszek

Having put 2023 firmly behind in the rear-view mirror, let's look at 2024. Not a lot of predictions but many things to be on the lookout for in what a less chaotic but extremely important year may be ahead.

**The Economy.** The dreaded R-word may not need to be uttered. Through machinations of government, regulators, central banks, and markets working as they sometimes do, the economy is in better shape than we thought. It may yet perform better in 2024.

Inflation seems to be better in hand. Government, business, and consumers have all adjusted and many prices – food, fuel, the basics – that affect fundamental perceptions seem to feel better. Not great, but better.

Further increases in interest rates don't seem likely. The next question is when we will see rates start to decline meaningfully. The St. Louis FED shows a 6.61% rate of a 30-year mortgage in February 2024; in February 2023, the rate was 6.3%. Lower rates will be stimulative for both residential and commercial sectors.

**Investments.** With the stock market in great shape for now, there's a feeling of satisfaction, if not downright happiness, for those who are invested there. Consumers have figured out that cash earns interest again and much money has gone into cash instruments. If you own a home, prices are solid and almost any homeowner is thinking: "If I sold, I could make out well...." The thought then is "Yes, but what can I buy to replace what I have just sold...." Rent?

**Housing & Affordability.** The Warren Group reports median prices in Massachusetts that are profoundly high with the number of sales incredibly low. A great situation if you happen to own.; not so good if you want to own. Looking the Warren Groups segmenting of prices by town and by county, there aren't many affordable places to buy close to major cities.

The Warren Group further 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."

To answer the buy vs rent question, here's some rental information: According to CoStar, nationally, the asking rent for a two-bedroom apartment is nearly \$1,750 per month, up \$17 from last year. In Boston, the asking rent is slightly more than \$2,900 per month, up from last year, and vacancy nationally is 7.6% and in Boston, vacancy is 5.5%; both indicators are up from last year. Boston has enough pipeline inventory to keep rent growth under 3% and vacancy between 5-7%. Urban submarkets seem to be experiencing the most "anemic" growth.

The affordability issue seeks a solution. Softening of rents may be one positive trend. Let's see what happens in 2024 as other solutions are advanced. More on this in this column in 2024.

**Cities.** COVID created unprecedented and unexpected stresses on urban cores, whether in Boston,

San Francisco, or San Antonio. The great rise of downtowns seems to be over, or at least has taken a different turn. “The most pronounced dynamic shaping U.S. cities heading into 2024 is “the donut effect” – a hollowing of the urban core as people, jobs and retailers flee to the suburbs and exurbs,” according to Axios. Did COVID exacerbate a trend that was already occurring, or did the dislocations caused by COVID create an entirely new dynamic? Probably the former. Also, more on this in a future article.

Commercial Real Estate Markets. CoStar tells us: “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.”

Uncertainty has prompted buyer and seller stubbornness. Most pundits see greater CRE activity in 2024, partly due to expectations about borrowing rates. For owners and lenders, lower rates will have them breathing sighs of relief as cash flow improves, loan renewals are easier, and refinancings may again become attractive and feasible.

Multi-family and industrial markets remain favorites. Nationally and in Boston, multifamily is still a strong sector but growth expectations are moderating. With slowing rent growth, and higher cap rates, the sector is still attractive, but returns have to be more carefully forecast. Even Boston industrial exhibits deceleration.

Office markets will continue to bump along, with tenants, landlords, investors, and lenders adjusting to new realities. CBD locations will continue to adapt and hope for some equilibrium in the near future, but probably not in 2024, though. The office to multi-family conversion trend should continue but represents a pretty partial solution.

Conclusions. There is some optimism for 2024. Market psychology seems to be that “if we can get through this year with some credible expectations going forward, things may not seem quite as chaotic as they have been.” Uncertainty is the bane of investor activity. Thus, some certainty going forward – good news, bad news, doesn’t matter - make for greater happiness for consumers and investors alike. Maybe it gets worse before it gets better but there at least is some expectation that it will get better within some definable window.

William Pastuszek, Jr., MAI, ASA, MRA heads up Shepherd Associates LLC, Needham, Mass.

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