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A regional report on employment, office, retail and apartment outlooks for the Boston metro area

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CWCapital and its in-house research and consulting group, Maximus Advisors, provide the following excerpt from their recent report on the local real estate market and economy. The excerpt covers employment, office, retail and apartment market outlooks for the Boston metro area.

Employment

Boston metro area employment is sharply lower than in the year-earlier period, but has shown signs of stabilizing in recent months. Total employment was down 2.6% from a year ago, outperforming the nation's 4.3% decline. Gains in the region's important professional and business services sector are offsetting continued losses in the metro area's large financing services sector. Information sector employment has failed to contribute any growth since the tech bust but has been relatively stable in recent months, as has trade employment. The education and health services sector has continued to fuel growth, but has dissipated slightly in recent months as the state faces weak fiscal conditions. The jobless rate has risen sharply from 4% in early 2008 to 8.4% most recently, 110 bps lower than the national average but the highest rate here since 1991. The economy will likely remain in a fragile state throughout yearend, but should see a turnaround beginning in 2010 as the US economy begins to strengthen with stronger gains in 2011 as the recovery process gathers momentum.

Office Market

Market sources report Boston office vacancies to be between 12.5% and 14%. Demand for space remains weak, as firms continue to give back square footage, more than 2.0 msf over the last four quarters, to rebalance space needs with a much lower workforce. Unfortunately, lagged impact from ongoing layoffs, combined with new supply, should push vacancies to approximately 18% by the end of next year. Effective rents declined in the second quarter, and will likely see significant erosion in coming years. We are predicting a cumulative rent loss of 23% from the 2008 level to the 2011 trough.

Retail Market

Net absorption of retail space has remained positive despite numerous pressures facing households. However, a significant amount of retail space entered the Boston metro market over the last year, pushing vacancies to their highest level since the mid-1990s. Net absorption of retail space is expected to remain weak until the end of 2010 as retailers remain cautious. Thankfully, supply-side risks have subsided; however we are still forecasting vacancy rates to rise to nearly 9% by yearend 2010 (a record high) amid weak demand. Absorption should begin accelerating in 2011 and 2012, and vacancies will likely fall to approximately 7% by 2013. We project a 5.5% decline in rents through the end of next year, a stable market in 2011, modest growth in 2012, and a stronger gain likely in 2013.

Apartment Market

Boston apartment vacancies were a seasonally adjusted 6.6% in the second quarter, up approximately 40 bps from the year-earlier period. Absorption of rental units has been fairly stable (seasonally adjusted). With a nearly 2% addition to stock this year, vacancy rates look to rise further. The expectation of weaker absorption during this time will aggravate the vacancy situation further. The clampdown on new rental supply comes in 2010 and 2011, reflecting developer caution and the shortage of financing currently available for new projects.

A slew of condos expected to be completed in 2010 could keep local vacancies elevated if some of this stock enters the rental pool. We anticipate rents to decline 2.2% this year and another 1.2% in 2010 as vacancies remain relatively high. Vacancies should begin improving in 2011 and descend steadily thereafter. Rents look to begin growing again in 2011, with stronger gains anticipated in 2012 and 2013.

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