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## **National Association of Realtors lists Boston apartment vacancy rate as one of the lowest in country**

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As the economy continues to mend itself in 2010, so the commercial real estate market will follow. Although, most economists agree that the real estate market as a whole won't see much improvement until the 3rd quarter, leading economic indicators such as the stock market have begun to improve. This first sign of an economic recovery is the reaffirmation that real estate is also, indeed characterized by cyclical movements and will too improve.

Even during the gloom of 2009 where major retailers closed stores and mega real estate players closed doors, there were some Massachusetts notables. The National Association of Realtors listed the Boston central district, apartment average vacancy rate at only 5.6%, one of the lowest in the country and an opening and seemingly successful new retail mall, one of only a handful of new malls in the country, Legacy Place in Dedham, pleased shoppers and entertainment seekers right through the holiday season.

### **Apartment Market**

Although, the National Apartment Rate is predicted to continue to deteriorate in 2010, mainly due to the completion and entry of new apartment units into the market; with little or no new construction in Massachusetts, vacancy will begin to stabilize. Leasing to existing vacancy will continue through most of the year. With the supply still in excess of demand, apartment owners will continue to compete for qualified tenants offering concessions. These concessions will also, continue to have a negative effect on income and property value.

As the Boston, central district market gains some strength through the year, we will begin to see a trickle down affect in positive occupancy, and the use of fewer concessions in the outlining locations along the beltways surrounding Boston.

### **Office Market**

According to the National Association of Realtors the U.S. metropolitan office vacancy rates ranged from 9% to 27% in the last quarter of 2009. The good news is that Boston ranked #6, in the top 7 lowest vacancy cities with an average vacancy rate of 13.5%. As in the apartment market, vacancy is not driven by a surplus of new construction in Massachusetts, but by a lack of demand. The office market will remain flat through 2010 as the job market struggles. Job losses generated by a housing and financial meltdown are unlikely to rebound in 2010.

A predicted jobless recovery will continue to pressure employers to focus on improving efficiency of their current workforce instead of expansion. This slow/no growth employment factor will continue to contribute to contraction of office space. Sub lease space competing with existing vacant space, will restrict little, if any, positive absorption. Renewing tenants will continue to pressure landlords to

lower their rents, partly due to their reduced business profits but mainly due to lower current market rents.

Through 2010, most office sub markets in Massachusetts will maintain current vacancy levels, which in comparison to other states are more favorable, and the office market overall will have to look forward to 2011 for a recovery.

#### Industrial Market

U.S. metropolitan industrial vacancy rates ranged from 9% to 21% in the last quarter of 2009 according to the National Association of Realtors with Boston at 18.1%. It is forecasted that this market will continue to decline into 2010. With a slight additional drop in demand, rents will also decline which also unfortunately effects value.

Most encouraging in this forecast, is that this industrial market downturn, similar to the apartment market, is expected to continue to be less severe than office and retail due to minimal overbuilding and sustained tenant demand. Consequently, industrial properties should bounce back more quickly than office and retail.

#### Retail Market

The U.S. retail market continues to be hard hit due to increasing unemployment, declining household income and low consumer confidence. Although, Boston's retail vacancy rate of 11.1% is not one of the country's highest, in 2009 there were many store closings, including in Boston's toniest shopping districts, Newbury St. Tightened consumer spending will continue to constrict the retail market in 2010. As with the other commercial property types, tenants are renegotiating lease renewals early and landlords are forced to provide rent reductions and concessions, continuing to erode net operating income and value.

With higher than expected 2009 4th quarter retail - sales gains, there is some optimism that retailers have weathered the worst and will be on the rise. This will translate into higher percentage rents and might prevent further store closings.

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