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Worst of economic storm may have passed for some of the Greater Boston area office market as we head into 2010

February 09, 2010 - Spotlights

After what can only be described as one of the worst years for commercial real estate on record, the Greater Boston office market has started to show signs of bottoming out in the fourth quarter of 2009. While net absorption was down 3.4 million s/f for the year, and 456,000 s/f for the fourth quarter, this number was a dramatic improvement over the 975,000 s/f loss of the third quarter. Rents across the board were relatively stable with incremental growth for Class A properties and incremental declines in Class B and Class C properties. Overall commercial vacancy increased by 20 basis points from 13.8% in the third quarter to 14% in the fourth quarter, while the sublease market showed fractional improvement of 176,000 s/f from the third quarter to the fourth quarter.

Though the overall office market has started to show signs of improvement, this news has not filtered through to all of the local submarkets. Cambridge and much of the CBD, save for the downtown - tower submarket, posted either positive or nearly flat absorption numbers for the quarter, while areas on the periphery of the city continue to struggle. The Inner South, Mass Pike - Rte. 128, North - Rte. 495 and Northwest - Rte. 128 submarkets all posted negative absorption figures of greater than 160,000 s/f in the fourth quarter and the South - Rte. 495 submarket remains moribund with a vacancy rate hovering at 22%. Rents in these outlying areas continue to fall or remain relatively flat and vacancy rates continue to rise, ranging from 15% - 22%, as once prosperous tenants continue to downsize, give back space, or go out of business entirely.

Forecast

* Initial recovery will begin with the CBD and Cambridge submarkets.

* No sign of improvement in the secondary and tertiary markets, such as the 495 Beltway, is anticipated in the coming year. They will be the last markets to improve.

* Vacancy will continue to rise and eclipse 15% overall as the CBD/Cambridge submarkets bottom out and the secondary/tertiary submarkets continue to lag.

Despite the bad news and the foreclosures which overtook Broadway Partners and two of Boston's most preeminent properties - the John Hancock Tower/200 Clarendon St. and Bay Colony in Waltham which account for more than 2.7 million s/f of space, there are subtle rays of hope that the worst may have passed for Boston's office market. A key economic component in any commercial office recovery is the unemployment rate. While much of the nation's unemployment rate continues to rise, Massachusetts' has declined for the past two quarters after rising to a 33-year high of 9.3% in September. The unemployment rate, a historically lagging statistic, has dropped 50 basis points over the course of the past two months. While the seasonably adjusted rate of 8.8% remains abnormally high, and nearly 3% highter than the fourth quarter 2008, the fact that the rate has dropped for two consecutive months is a positive sign that the worst of the economic storm may have come to pass for the Greater Boston area as we head into 2010.