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Greater Worcester area office market stable; downtown conversions gain momentum

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With all the current negative news about the mortgage crisis slowing down markets nationwide in residential, industrial and commercial real estate, the state of the office market in the greater Worcester area has held its own. While vacancy rates have increased from the 3rd quarter of 2006 to the present quarter, they have decreased from 10.9% in the 2nd quarter of 2007 to 10.1% in the 3rd quarter of this year. There was a net absorption of 87,176 s/f vs. 33,420 s/f a year ago. In 2007 quoted lease rates have increased from \$17.80 per s/f in the 1st quarter to \$18.07 per s/f in the 3rd quarter.

Looking at the big picture for downtown Worcester, there has been frustration with the lack of progress at the City Square project in general but underneath the surface of this perception, smaller investors have been working busily to acquire smaller properties that are on the periphery of the big developments. My office has a listing on an old movie theater in the center of the city that is currently under contract. Up until recently there wasn't much interest in it, but over the past few months activity had increased and a purchase and sale agreement was signed. Properties on the south side of the Worcester Common have recently sold, some to an owner who has assembled a major portion of parcels in the area. The Park Building at Main and Franklin Sts. was sold in the past year and properties at the corner of Main and Pleasant are now available. The Massachusetts College of Pharmacy recently purchased the rest of the properties on their block which is bounded by Foster, Commercial, Mechanic and Norwich Sts. We recently completed a lease with FedEx-Kinkos at 44 Front St. which has for the first time pushed lease rates for retail space in that property into the \$20 per s/f range.

We have also received many inquiries as to the possibility of converting older office space in downtown to residential use which is interesting. A few years back we sold the Heywood Boot and Shoe Building, a 5 story, 90,000 s/f brick mill building in the middle of the proposed canal district on Harding St. (which is built over the Blackstone Canal) to a developer who has successfully redeveloped the property to upscale residential condominiums. Since that time the area has exploded with upscale restaurants, bars, clubs and additional conversions of former industrial properties to residential use. There's no doubt Union Station and increased train service to South Station in Boston has been a catalyst for increased interest in that area. The near completion of a 500 car parking garage will help in the near future. Another one of our listings, The Osgood-Bradley Building which backs up to Union Station and the new garage has seen new tenants move into a WWI era re-enforced concrete multi-story building reminiscent of New York style loft properties. The two tenants Bar-None on the first floor corner and Jumpin' Joe's Dance Club in 9,000 s/f on the top floor are not your traditional tenants for that type of space. They do signal that a change in use as initiated by the Heywood Building project is picking up momentum in the center of the city.

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