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New Eng. SIOR and Mass. NAIOP hold Mid-Year Market Roundup

July 07, 2010 - Spotlights

The New England SIOR Chapter and Mass. NAIOP held its annual Commercial Real Estate Mid-Year Market Roundup at the Seaport Hotel, Plaza Ballroom on Thursday, June 17 from 7:30 a.m. to 10 a.m. Approximately 350-400 commercial real estate professionals attended this event moderated by Hans Nordby, director, U.S Strategist, Property & Portfolio Research who also gave the Economic Overview. A panel of experts followed comprising of:

* Paul Donahue, CBRE on the Multifamily Market
* John Conley, Equity Office Properties on the Suburban Market
* John Osten, Jones Lang LaSalle on the Cambridge Office Market
* Mike Joyce, RBJ & Partners on the Boston Office Market
* James McCaffrey, Eastdil Secured, LLC on the Capital Market.

We would like to thank the sponsors, CBRE, Eastdil Secured, Equity Office, JLL, RBJ & Partners and Banker & Tradesman.

Here is a summary of the presentations.

Hans Nordby, Economic Overview

The real GDP growth and GDP trend (2.75%) has been positive. Employee cuts may have been too deep. Banks were profitable from 2006-08 and are the only sector profitable from 2009-10. The Feds are encouraging notes to be extended. Boston falls in the mean of most categories. With debt, the office market peaked in 2001 at 3.1 million s/f. In the early 1990s Boston lost 11% of its office inventory. From 2013-14, Nordby sees the Boston back above the employment peak. The cap rates in 2007 were 4.5%, 2009, 7.5% and 2010, 7%. The inventory with Boston housing occupancy is steady and rents/concessions are consistent.

James McCaffrey, Capital Markets

The perception of the U.S. is that it is a safe haven. The lack of productivity from banks is 10-20% price increases in 4-6%. Trophy buildings are selling in the 5-6% cap rates. There were 21 buildings that sold with a total of $5 billion. In 2007, there was $ 366 billion; 2008, $81 billion; 2009, $27 billion; and so far in 2010, $15 billion.

In 2009, the amount of equity raised totaled $24.2 billion. In 2010 17 real estate companies, IPOs, etc. raised $6 billion. The equity and debt raised was allocated for office at 5.9-7.3% and hotel 0-6%. Swansea Mall sold at $100 million which was a peak sale. Today it would sell for $20-30 million

Paul Donahue, Residential Market

Boston has the 5th largest multi-housing market in the U.S. The short-term forecast calls for an overall increase in the number of workers through year-end 2011. Total net absorption is forecasted to be a positive 5,266 units out-pacing supply during the same period. By year-end 2011, the annualized vacancy rate is expected to be 3.9% while rents are forecasted to grow reaching

$1,512.47 average rent. Compared to current market rents of $1,396.75. The population of Boston area stands at 5.82 million. The average per capita income is estimated to be $52,346, approximately 33% above the national average. Total employment stands at 2.86 million workers.
Short-term forecast calls for an overall increase in the number of workers through year-end 2011. Total net absorption is forecasted to be a positive 5,266 units, out-pacing supply during the same period. By year-end 2011, the annualized vacancy rate is expected to be 3.9% while rents are forecasted to grow, reaching $1512.47 compared to current market rents of $1,396.75.
Donahue reviewed the vacancy rates for multifamily with the following:
2001: 2.4%
2003: 5.5%
2005: 3.7%
2008: 4.23%
2010: 4.4% forecast
Rent growth for 2012 is expected at 6%. Construction is anticipated for 2010 for 1,707 units and after 2010, about 471 units. The sales of units have been challenging for affordable and politics has played a big part. Developers are focusing on land purchases near mass transit. Total employment in Boston is projected to grow by 111,000 jobs during the 2010-2015 period. During the same time period, new supply is expected to average 1,973 units, while net absorption is expected to average 3,088 units, out-pacing new supply. Vacancy rates are expected to improve to 3.4% while rents are forecasted to rise to $1,817.20.
Some large transactions included:
* Dexter Park, Brookline, 409 units for $129.5 million
* Avalon at Flanders Hill, Westboro, 280 units for $40.9 million
* Cliffside Commons, Malden, 295 units for $38.4 million
Mike Joyce, Boston Office
The current absorption rate has been flat. There is 11.9 million s/f vacant vs. 20.3 s/f available. From 2011-14, approximately 2.8 million s/f of leases are expiring. He sees new construction totaling 504,000 s/f but 70% of that number is due to the Fan Pier.
Significant lease signings in the Financial District included 29 leases, mostly mid-rise and relocation. Another 71 leases were renewals in mostly hi-rise buildings. The BackBay had 45% leases that represented relocation and 55% were renewals.
The forecast for rents in the Financial District include hi-rise buildings seeing an increase, mid-rise will be steady, and low-rise will see a rent reduction. In the BackBay, hi-rise, mid-rise and low-rise buildings should all experience an increase.
John Conley, Suburban Market
Conley started with his market predictions. There should be increasing rents in selected Class A buildings. There is a greater sense of urgency from tenants. There are pockets of tangible growth in all business sectors and reduced concession packages. We will experience fewer blend and extend leasing. The Rte. 128 West market has 2.33 million s/f of demand with the largest portion being the 0-25,000 s/f range. The 128 North market has 1.267 million s/f of demand with the majority again in the 0-25,000 s/f range. The Rte. 128 South market has 256,000 s/f of demand with the majority in the 0-10,000 s/f range. The top market deals included:
* Verizon 197,928 s/f in Waltham
* Avid Technology 176,718 s/f in Burlington

* Nokia, 135,000 s/f in Burlington
* Constant Contact 128,074 s/f in Waltham
* Educational Development Center 120,000 s/f in Waltham

The absorption rate has been negative for the 1Q of 2010 but it's better than 2009. Rte. 128 North was the only portion of Rte. 128 that had positive absorption in the 1Q 2010. The overall Rte. 128 vacancy is 17% with an asking rent of $28 per s/f. Rte. 128 West may be the healthiest of the 3 Rte. 128 markets.

John Osten, Cambridge Market

The combined Cambridge office and laboratory market recouped some of the occupancy losses of 2009, posting 196,795 s/f of positive net absorption the in first quarter. Just over 40% of these occupancy gains can be attributed to expansion at one Broadway in E. Cambridge, as Cambridge Innovation Center agreed to lease 56,892 s/f of office space on the 3rd and 4th floors. Vacancy continued to expand reaching the highest level since 2004, 2.2 million s/f representting a 21% increase year over year. This was mainly due to terms expiring on previously marketed space. The amount of available space dropped 1% point over the quarter but remained 2% points over 1Q 2009 level.

Signs of stabilization in the economy and the prospect of job growth stemmed the flow of new sublease space hitting the market. Additionally, landlords began marketing sublease space with looming expirations for direct occupancy. Finally tenants such as Monsanto and Target Software took advantage of lower sublease rates, executing subleases for a combined 64,909 s/f at 245 First St. and 2 Canal Park, respectively. This combination of factors resulted in a 33.7% decline of sublease space over the quarter to 371,524 s/f.

Laboratory vacancy remained above one million s/f for the 3rd consecutive quarter, despite a couple of sizeable lease executions including Ironwood Pharmaceutical's 54,000 s/f expansion at 301 Binney St. and Aileron's 25,929 s/f lease at 230 Albany St. The entirely vacant new laboratory development at 650 East Kendall Square accounted for a bulk of this space, 268,569 s/f, but given the limited number of large contiguous laboratory options, this space is not expected to remain vacant for an extended period.

Limited sublease and Class A supply particularly in Kendall Square, put pressure on the average asking rate, which remained relatively steady over the quarter, only sliding $0.10 per s/f. This was particularly evident in the average office asking rate, which inched upward slightly as less expensive options were leased and a few higher-end blocks were introduced for future direct occupancy.

Looking ahead, while the light at the end of the tunnel is now visible, it will take time for market indicators to return to pre-recession levels. Transaction volume will gradually increase, as tenants grow confident in their own businesses, and move to take advantage of tenant-favorable conditions. The Cambridge market, in particular, is expected to recover more quickly than surrounding markets due to the favorable industry mix and limited construction pipeline.

Key market indicators

* There is 17.8 million s/f
* 12.7% vacancy
* 18% availability
* 0 s/f under construction
* Total demand: 1.01 million s/f
* 196,795 s/f net absorption YTD

* -9.3% 12-month overall rent % change
* Overall office asking rent $34.16 per s/f
* Overall lab asking rent $48.47 per s/f

Some large blocks of space include:

* 650 E. Kendall St. for 268,569 s/f
* 640 Memorial Dr. for 187,500 s/f
* 301 Binney St. for 161,620 s/f