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## **A regional real estate market and economic outlook provided by CWCcapital and Maximus Advisors**

October 27, 2010 - Spotlights

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

### **Employment**

Boston employment grew 0.9% in the second quarter, marking the first quarter of expansion after eight consecutive quarters of job losses. Most employment sectors are stabilizing and beginning to see job growth including construction, manufacturing, wholesale trade and transportation; all saw significant job losses during the recession. Only the information sector continues to sustain job losses.

In August, unemployment in the metro measured 7.7%, down 110 bps from the recent peak and nearly 200 bps below the national average. We expect that the Boston metro area will experience moderate job creation through the end of the year, with gains accelerating in 2011. However, it will take Boston a number of years to recapture all of the jobs lost during the recession.

### **Apartment Market**

With the exception of a few quarters with negative net absorption during the recession, Boston apartment demand has remained positive through this downturn. However, demand slowed and did not keep up with supply, pushing vacancies up from a pre-recession low in the mid-4% range to the mid-6% range. Most recently, vacancies fell 30 bps from the previous quarter to 6.2% in the second quarter, leaving vacancies above anything seen since 1990. We expect this supply demand dynamic to reverse over the next few years and vacancies to revert to lower levels, reaching 2.2% by the end of 2014. Rents rose 1.8% from the previous quarter and are now just slightly below last year's level at \$1,625 per unit, and remain just below the 2008 highs of just over \$1,650. We expect that rents will finish 2010 flat before seeing growth of 2.3% in 2011, 3.8% in 2012, 4.7% in 2013, and 5.0% in 2014. As rents rise and vacancies fall, NOI will experience growth on average of 3.3% per annum from 2010-2013, with much of this growth coming in 2012 and 2013.

### **Office Market**

The Boston metro office vacancy rate rose 20 bps in the second quarter from the previous quarter, and 100 bps from the previous year, to 14.9%. Some modest office employment growth has brought the seasonally adjusted July level up 0.6% from the previous year, bouncing back from first quarter lows. We expect 2010 to show a final year of negative net absorption before net take-up for the metro area turns and remains positive through 2014. Office rents fell 0.7% from the previous quarter in the second quarter and are now down 6.1% from the previous year and 16% from their peak in late 2008. We expect rents to decline in 2010 by another 4% before leveling off in 2011 around the \$28 psf mark. Subsequently, we expect rents to increase through 2014 to around \$30 per s/f on an

effective rent basis.

#### Retail Market

Retail vacancy rates in the Boston area edged back up to 7% in the second quarter after decreasing to 6.8% in the first quarter. Our forecast calls for vacancies to continue to rise this year, peaking at 7.8% (an all-time high), before embarking upon a downward trend in 2011 in tandem with a more robust economic recovery and stronger net absorption. Retail rents fell 0.4% from the first quarter, and were off 1.5% in the second quarter. Our forecast calls for rents to decline 1.7% this year, before stabilizing in 2011. Rents will see modest gains (averaging 3.1%) in 2013 and 2014, gaining momentum and reaching levels comparable to 2008 pre-recession peaks.

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