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Market outlook and real estate trends for 2011

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The Appraisal Institutes Massachusetts Chapter held its first meeting of the year at the Federal Reserve Building in Boston, on January 25th. The programs topic was "Market Outlook and Real Estate Trends for 2011." We had the honor of having a panel of experts in the industry who presented to over 80 professionals. The four main topics discussed related to the Boston office market, the suburban office market, the Boston area apartment market and the New England retail market. Ronald Perry, from Colliers, Meredith and Grew, gave a summary of the Boston office market, Chris Tosti, from CBRE, gave insight on the suburban office market, Simon Butler representing Cushman & Wakefield discussed the apartment market and Chris Angelone, also from CBRE, talked about the retail market. Below is a summary of these presentations.

Perry noted that the Boston office market still had negative net absorption of 750,000 s/f in 2010. He indicated that the vacancy rate was 16.6%. The class A rental rates ranged from \$35-\$65 per s/f, while the class B space was renting from \$25-\$35 per s/f. The Back Bay class A space appears to be renting for a higher rate than the Financial District. It ranges from \$40-\$65 per s/f, while the Financial District ranges from \$30 to low \$50's per s/f. The vacancy rates are also lower in the Back Bay at 8.7%, while the Financial District is at 19.5%. The Back Bay also had positive absorption in 2010. Perry also noted that space in the towers below 20 floors had a higher vacancy than floors above 20. As companies start to hire, 2011 through 2014 are projected to see positive net absorption. This in turn will have a decreasing factor on vacancy rates. They are projected to be at 12.4% by 2014.

Tosti offered a positive perspective of the suburban office market. He indicated that the area had a positive net absorption of 149,000 s/f for the 4th quarter of 2010 compared to a -2.1 million s/f of net absorption in the 4th quarter of 2009. As job growth expands he expects this positive trend to continue. The suburban office market contains approximately 107 million s/f. As of the 4th quarter of 2010 the vacancy rate was 22.9%. This is slightly down from the 4th quarter of 2009 when it was 23%. Tosti focused his review on 128 west and metro west. He indicated that rental rates in the 128 west range from \$22-\$28 per s/f depending on location and quality of space. He stated that the metro west rents range from \$16-\$18 per s/f. He stated in general that there is still a big gap between rental rates for the 128 belt compared to the 495 belt. This trend will continue in the near future with decent growth in the 128 area and slower growth out in the 495 area.

Butler offered a positive picture of the current and projected apartment market overview of the greater Boston area. He noted that from the 3rd quarter of 2009 to the 3rd quarter of 2010 inventory has increased from 195,466 units to 199,205. Also during this time period vacancy rates have dropped from 6.3% to 5.4%. Effective rent has also increased from \$1,611 per month to \$1,640.

Currently class A suburban apartment cap rates range from 5%-5.5% and class B range from 6%-7%. He projects that by 2014 vacancy rates will be around 4% and the average asking rent per month will be close to \$1,900.

Angelone offered a mixed review of the retail market. 2010 retail sales were up 3.6%. This is the best results since 2006. Grocery stores, discount retail stores and value oriented clothing stores are doing well. The large department stores, jewelry stores and luxury goods are still recovering. In New England there was only 4 million s/f of new development in 2010. This was a historical low. The average is 32 million. 2011 is projected to have 4.5 million s/f added. Class A cap rates are ranging between 6%-7%, class B are 7%-9% and neighborhood community centers are ranging from 9%-11%. In general market rents are starting to increase and more debt is coming into the market. This could assist in lowering cap rates in the future.

Please join us at our next meeting in Natick on April 12th. I look forward to seeing you there.

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