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Marcus & Millichap Real Estate Investment Services releases 2011 Market Outlook

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Marcus & Millichap Real Estate Investment Services release 2011 Market Outlook. The Boston office market will bounce back ahead of most of the nation this year on a sharp rise in job growth within high-paying sectors that will generate strong class A space demand. Large pharmaceutical companies are expanding in the Cambridge/Charlestown/Somerville submarket to strengthen partnerships with top research universities, fueling demand for area space. Novartis AG, for example, will double the size of a planned office complex in Cambridge, investing \$600 million to bolster its research operations and hire 300 employees over the next few years. The class B/C sector will also improve in 2011 as companies still cost-conscious this early into the recovery target space in affordable suburbs.

Hittite Microwave Corp., for instance, moved into the Altid Business Park in the Northwest/Rte. 2 submarket in early 2011, leasing more than 105,000 s/f and supporting the 150 basis point decline in area vacancy projected for this year.

Office investors who have a penchant for filling vacant space and are seeking above-average upside will move into secondary areas of Boston, while more cautious buyers, including institutions and REITs, will gravitate toward established office districts. Risk-tolerant investors attempting to achieve outsized returns will purchase high-vacancy class B/C properties in the North Shore/Rte. 128 and Southern Norfolk County submarkets for re-tenanting opportunities. Discounted rents in these areas will attract primarily smaller, local companies looking to cut costs from their balance sheets. Transactions in core office districts, such as the CBD and Back Bay/Fenway, will remain dominated by institutional capital chasing cap rates in the high 6% range. Private buyers seeking top-tier deals will likely have to venture into northern Middlesex County, particularly near interstates 93 and 95, to avoid being outbid. First-year returns for these properties will average near 7% in 2011.

2011 Market Outlook

- * 2011 NOPI Rank: 3, up 2 places. Boston claimed the third spot in the ranking behind the strength of the nation's third lowest vacancy rate.
- * Employment Forecast: Job creation will accelerate in 2011 to 49,000 positions, a 2% gain; the total includes 24,000 office using jobs.
- * Construction Forecast: Construction activity will tick up this year as developers complete 812,000 s/f of space. In 2010, roughly 580,000 s/f was delivered.
- * Vacancy Forecast: Vacancy will dip 50 basis points in 2011 to 13.3%, after improving 10 basis points last year.
- * Rent Forecast: As leasing activity picks up in 2011, owners will raise asking rents 1% to \$35.28 per s/f, while effective rents will jump 1.6% to \$29.39 per s/f.

* Investment Forecast: Savvy investors may find listings in outlying areas such as the West/Mass Pike/Rte. 128 submarket for re-tenanting opportunities and strong rent growth potential. Properties in the submarket will trade at cap rates starting in the low 9% range this year, up 100 basis points from 2010.

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