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## **Meredith & Grew's Market Viewpoint on the suburban Boston office/R&D market**

February 08, 2008 - Spotlights

The suburban Boston office and R&D market posted its strongest year since 2000, as the vacancy rate declined from 20.4% to 17.7% and 4.2 million s/f was absorbed. The market is comprised of approximately 123 million s/f, in a broad geographic area delineated primarily by the boundaries of Rtes. 128 and 495, with varied performance and product from one submarket to the next.

### Supply and Demand

Over the past few years, there have been limited new additions to supply in the suburbs as the market recovered from the 2001-2002 recession. Encouraged by recently improved leasing fundamentals and solid employment growth, developers are once again undertaking speculative projects. Given that much of the suburban product was constructed 15 years ago or more, these properties are generating a strong interest from tenants, with Boston Properties' CityPoint, Waltham fully pre-leased.

Propsects in the development pipeline include:

CityPoint, Waltham, Boston Properties, 200,000 s/f, Q1 2008;

201 Burlington Rd., Bedford, Cresset Development, 130,000 s/f, Q1 2008;

Trade Center 128, Woburn, Cummings Properties, 455,000, Q2 2008;

Trapelo Corporate Center, Waltham, The Bulfinch Companies, 61,000 s/f, Q2 2008;

Reservoir Woods, Waltham, Davis Marcus Partners, 180,000 s/f, Q2 2008;

30 Braintree Hill Park, Braintree, The Flatley Company, 160,000 s/f, Q2 2008.

Demand is steady, with over 250 tenants seeking approximately 13.5 million s/f. Tenants in the market include both publicly-traded and privately-held companies and range in size from under 10,000 s/f to over 500,000 s/f, with the typical suburban requirement of approximately 12,000 s/f. After a tepid 2006, the IPO market witnessed a number of companies that began trading in 2007, primarily from the technology and life science industries

### Absorption and Vacancy

While the 2007 absorption of 4.2 million s/f is significant, the suburban market is segmented with vacancy rates ranging from a low of 4.3% in the inner suburbs to a high of 23.2% in the Rte. 495 West submarket.

The strongest suburban performers during 2007 were the Rtes. 128 Northwest and 495 North submarkets with absorption of 2.3 million and 1.0 million s/f, respectively. These two submarkets benefited in part by the fact that tenants found them to provide value alternatives compared to neighboring submarkets along Rte. 128. Some of the significant transactions that contributed to the year's result included IBM's 490,000 s/f lease in Littleton and Instrumentation Labs' 400,000 s/f

acquisition in Bedford, both transacted during the third quarter.

Other major lease transactions executed during 2007 included: Altus Pharmaceuticals, Waltham, 169,000 s/f; iRobot Corporation, Bedford, 157,000 s/f; Enterasys Networks, Andover, 156,000 s/f; GSI Group, Bedford, 150,000 s/f; Anika Therapeutics, Bedford, 134,000 s/f; Trip Advisor, Newton, 106,000 s/f; Harte-Hanks, Billerica, 100,000 s/f; Blue Raven Technology, Wilmington, 100,000 s/f; Immunogen, Waltham, 90,000 s/f.

#### Office Rental Rates

Not surprisingly, as the vacancy rate has steadily declined office rental rates have increased. The weighted average asking rent for suburban office space, including both Class A and Class B properties, was \$22.79 per s/f at the end of 2007 compared to \$19.42 twelve months ago. Around this average, however, the range varies widely depending upon building age, location and amenities. Asking rents for premium space in the core Rte. 128/Mass Pike market broke the \$45 mark during 2007. Renewing tenants - particularly those without expansion requirements - found themselves more vulnerable to increased asking rents as the higher rent was often preferable to the expense of relocating.

#### Trends

- \* Over 1 million s/f of speculative development will come online in the first half of 2008, including projects along Rte. 128 from Woburn to Braintree.
- \* The number of competitive options - both new and existing - available to tenants, along with general economic uncertainty is likely to dampen any further significant rental rate increases over the next six to twelve months.
- \* Tenants will continue to seek value alternatives in 2008; Class B landlords in particular will be motivated to secure tenants rather than lose them to other submarkets.
- \* Tenants from Boston to Cambridge will consider suburban options, but be slow to migrate.