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## **2012 outlook for Worcester County is improving and continues to be a tenant/buyer market**

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Glickman Kovago & Company prides itself on being Worcester County's only full service brokerage firm. Each member of the brokerage team offers specialized knowledge in an area of commercial real estate. The 2012 market outlook for Worcester County is improving and continues to be a tenant/buyer market.

### Retail

Retail sector activity throughout the surrounding Worcester area, has improved the 12 months. Led by national discounters, new store openings targeted by small and mid-box size retailers will appear in centers and smaller retailer strips throughout the county or in new ground up development.

Primary fast food and casual dining restaurants - corporate and franchise - have increased their respective search activity in the area, which has otherwise been flat over the past several years. Several new store opening will occur in 2012/13 locally.

Gas station/convenience store development is likely the fastest growing part of the sector in this region. Several national tenants have awoken from the economy downturn and are in early stages of aggressive roll-out programs. A few of the larger independents are also competing favorably for the best sites.

In Worcester, Front and Center - the redevelopment of the Common Outlets - is under construction now and will offer over 100,000 s/f of street front, walk-able retail with space for a large box retailer. Several retailers have expressed interest during the construction period.

On Lincoln St. at the former Holiday Inn site, Kohl's is under construction for a late fall opening. A 6,000 s/f retail pad will be built out front during summer months and is already more than 50% leased. Aldi's opened their first grocery store in the county at the site in 2011.

On Rte. 146, Sam's Club is almost complete on construction of a new 165,000 s/f store in Worcester Crossing, which is home to the newest Wal-Mart in the region. The center also has a 24,000 s/f retail strip under construction that is almost fully leased.

Northborough Crossing, 600,000 s/f open-air shopping center, is situated between Boston's MetroWest suburbs and the thriving Worcester market. Northborough Crossing is 99% leased including the first Wegman's in Massachusetts.

White City is under major renovation of the the circa 1970s plaza to give it a more modern look and improve pedestrian access. Several new retailers and restaurants will continue to move into both sides of the center over the next year.

Overall, the retail sector looks promising in Central Mass. for the foreseeable future.

-Mike Jacobs, principal

## Industrial/ Manufacturing/ Warehouse

The Central Mass. industrial market has begun to see increased activity. Since the mid-2011, several manufacturing and distribution companies have started to acquire more space as businesses have begun to grow again. It's a dramatic change from recent years where most companies were typically trying to downsize footprints to save money.

While activity is up, dismal levels of empty industrial space remain, enabling tenants/buyers to have a negotiating advantage. Excellent pricing and flexible terms are available as landlords and sellers have been typically marketing their properties for extended periods. Unfortunately, for property owners, it will take several quarters of strong absorption to significantly decrease the amount of available space.

A recent survey of industrial space for lease for 20,000-50,000 s/f in Worcester and neighboring towns included 60 properties with 96 spaces available. This quantity represents a vacancy rate of 38 % for spaces in this size range (Costar). Historically, high quality properties of this size would typically lease for rates between \$5.00 to \$6.50 NNN. It is now more common to see pricing between \$3.50 and \$5.00 NNN.

The number of property sales in this size range has increased during past year. However, prices achieved for these sales appear to be down by 20-30% or more when compared to transactions of similar properties at the height of the market prior to late 2008.

-Jim Glickman, principal

## Apartment & Multi-family Property

Recently, the activity of sales for 2, 3 and 4 unit properties has significantly increased. Many of the properties are bank owned and in poor condition. This allows buyer to purchase below market value, renovate and re-rent. Of the 174 apartment properties on the market in the Worcester area, only a dozen are over 6 units and none over 12.

Over the past few years there has been a dramatic drop in rents and an increase in expenses, resulting in a drop in Net Operating Income (NOI). Combined with banks requiring 25% down payment on a purchase (this translates into investors looking for larger returns on an investment) has pushed the potential sale price of a property down. Until banks lower the down payment requirement, sellers have to adjust their expectations or hold the properties.

-David Brasington, vice president

## Office

When discussing the office environment in Worcester, most of the focus is on the Central Business District (CBD). According to a survey performed by the Worcester Regional Research Bureau in October 2011, the outlook has been mixed, as vacancy rates have increased over the past five years.

Landlords are facing the same challenges. Many buildings are old and require a significant capital investment by the landlord to attract tenants. Lacking any major demand, lease rates remain below the rate where such an investment can be justified. However, landlords benefiting from relatively recent renovations have enjoyed favorable occupancy rates, averaging 85% or better. The demand for quality modern office space is evidenced by the success during the past ten years of new construction outside the CBD.

Worcester County will continue to enjoy a healthy amount of new construction, fueled largely by a

significant commitment from the local colleges and universities. As these projects come online, daytime and evening occupancy will increase. This should fuel continued investment in the office market as the economic climate changes.

-Peter Kovago, principal

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