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## **The two halves of 2012: Buyer's perspectives on product types and Q3-Q4 2012 prospects**

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My being part of CBRE provides an opportunity to gain unique market knowledge not typically available. I attend brokerage meetings and learn about the impact of deals done or not done. I have been fortunate enough to be invited to recognition events where I rub shoulders with many of the top professionals in the U.S.

This article will discuss views of market participants as to the first half of 2012, buyer's perspectives on product types, and Q3-Q4 2012 prospects.

### Q1-Q2 2012

The momentum left over from 2011's step toward recovery has continued. In the city of Boston, 390,335 s/f of office space was absorbed. This compares with 761,341 s/f for the city as a whole in 2012. One of the central themes in prior articles was that the market was contracting toward Boston with negative absorption in the suburbs. Negative absorption continued at (50,441 s/f).

The industrial market continued its upward movement after four years of negative absorption in 2007 to 2010. 607,304 s/f of absorption took place.

The East Cambridge market was on fire. The Novartis World Headquarters, Pfizer Research Center, and Alexandria were well on their way. Vacancy had dropped to 4.6%.

The overall result is that CBRE described Boston as having a "strong start" in 2012.

### Buyer's Perspectives

Discussion with brokers in the market, both locally and nationally, indicated the market to be one of "pockets."

The largest "pocket" was the multi-family housing market continued to strengthen. The research firm known as REIS surveys close to 200,000 multi-family housing units in 9 submarkets. Apartment vacancies at 3% are half of their 2009 peak brought about by the Great Recession.

As a result, the apartment sales market is expected to come close to matching its 2007 peak. Well over \$1 billion in multi-family sales are expected for 2012.

The weakest pocket continues to be the office market in the Boston suburbs. The Marlborough Fidelity Campus of 716,000 s/f just sold to TJX as owner/user space. The price was \$62.5 million or \$87.29 per s/f. The broker interviewed for this article indicated that taking 716,000 s/f potentially off the leasing market "did not even make a dent." The report was received that had the property not found an owner user, the price would have been \$33 per s/f.

What is clear is that although steps toward recovery are underway, product types vary and prices are location centric.

### Q3-Q4 2012

Basic and fundamental in real estate is that markets, just like batteries, need recharging. Time is required for recharge to take place. The second half of 2012 is projected by those interviewed to be

a time when recharge will take place.

Tenant moves were put on hold in 2008 and 2009 because of recessionary conditions. 2010 saw activity take place with positive absorption on Boston, Cambridge and suburban office space which continued into 2011 and 2012.

Basic real estate economics are what govern the market. Several major deals have taken place. The Shaws Engineering move to One Beacon involved a downsizing as will the Mintz Levin Renewal at One Financial Center. Moves of these types leave residual impacts and holes in the market. It takes a long time to fill holes which is why Q3-Q4 2012 is projected to produce quiet time.

#### Conclusion

Conditions in the Greater Boston market will continue to improve. The improvement is being driven by an entirely new economic perspective. That perspective is titled in one word: Innovation

Boston's economy is rebuilding itself around life science related and harmonious spin-offs - the direct result of its educational base.

One cannot look at just a few quarters in time. The Boston market is robust. This is why in Boston, but for Washington, D.C. and New York City, capitalization rates are lower than any other city in the Eastern U.S.

Webster Collins, MAI, CRE, FRICS is executive vice president/partner within the valuation & advisory group of CB Richard Ellis, Boston.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540