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2012 commercial real estate market: The economic calm after the storm

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There has definitely been a measured recovery in all property types in the Boston market and improvement throughout New England. Vacancy has declined across all commercial property types in 2012. The headlines have been reinforcing this encouraging news: "Apartment Market Keeps the Good Times Going", "Boston Skyline in Bloom" and "Retailers Eating Up Crossing" are just a few that have been in the publications this year. Even the office market has improved after finally leveling out at the end of 2011. And most impressively, Boston is in the top 7 cities with the most new construction.

The following is a recap of this year's performance.

The apartment market continues to remain strong throughout New England. The Greater Boston vacancy rate at 3.8% is one of the lowest in the country, with rents rising approximately 5% this year. Boston proper has been rated as one of the worst cities for renters as the decade high average rent has reached almost $1,800 per month. In addition, all of the New England markets are experiencing a strong market including Providence, R.I., which had previously lagged behind.

A burst of new apartment construction has continued this year as demand for multi-family housing has increased. The city of Boston, alone, has permitted 3,256 units in its neighborhoods, so far this year. Suburban construction is also on the rise.

The retail real estate market has been sustained and has now seen moderate growth this year. This has been fueled by upward retail sales and limited new supply. Only recently has the metropolitan Boston area seen any new construction in this sector. Newbury St., in Boston's Back Bay has leased up much of its existing and available space and there are new retail developments in various stages of construction in many New England areas including a new Specialty Discount Mall in Merrimack, N.H. outside Nashua, and a Lifestyle Center in Chestnut Hill, Mass. on Rte. 9.

Boston is, again, in the top 15 retail real estate markets in the country. The metro market has seen a 2% modest gain in rent. Rent per s/f ranges, for new leases, between $13 to $39 per s/f, depending on the location and type of center. The vacancy rate has fallen to 13% and signs indicate that it is will be another 1% lower by year end.

The industrial real estate market, in particular warehouse and research and development are experiencing increased demand due to the slow but continuing economic growth. This increased demand has resulted in another year of a vacancy rate in decline. Most of the industrial properties have reported an average vacancy rate of approximately 12% for warehouse and to approximately 14% for R&D as compared to the national average of 13.2% for both. Rents per s/f have stabilized and depending on the property and type of industrial use range from $5 to $14 per s/f triple net.

The office property sector continues to lag behind the other major property types. There has been some improvement in the various Boston markets in particular the Financial District and the Back

Bay where new rents have hit a high of $79 per s/f in Class A new buildings.

The vacancy bottomed out in 2011 in all New England office markets. Compared to the national office vacancy tate of 15.7%, Boston's ventral fistrict's vacancy tate is faring better at 14.1%. This reduction in Boston's vacancy is mostly attributed to positive absorption in the Financial District. Likewise, strong demand has also occurred in the Cambridge market.

The good news is that the suburban Boston markets have also improved. For the first time in 3 years, the South Shore, most notably Braintree and Quincy has a vacancy rate of below 20% and the Rte. 495 Beltway has dropped, significantly from 30% to 26%.

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