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Greater Boston industrial market posted highest absorption for 2007 with 779,000 s/f new tenancy

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The greater Boston industrial market posted its highest absorption total for 2007 in the fourth quarter, soaking up 779,000 s/f of new tenancy. This influx was enough to push the annual tally into the black, making the total for 2007 a positive 389,000 s/f of absorption. Rents in the immediate vicinity of Boston continued to appreciate through the end of the year due to strong tenant demand for properties with easy access to transportation hubs and skilled workers, but elsewhere rents have decreased as suburban landlords have adjusted their rates in response to the market.

These year-end dynamics are typical of greater Boston's industrial real estate performance over the past several years, which has been characterized as flat. During this period, the market posted minimal net gains in tenancy and virtually no change in rental rates. While other industrial markets across the country, such as southern Calif. and Chicago, have experienced robust growth over this period, the Boston market has been bypassed. A primary reason for this phenomenon is the lack of major port facilities and transportation hubs in the area for coordinating logistics operations that has been responsible for stimulating growth elsewhere.

Since Boston has missed out on the industrial growth trend exhibited in these markets, Boston has less to lose in the case of an economic downturn. An event such as a reduction in consumer spending or a recession, which economists speculate could occur in 2008, would be far less devastating to the local industrial sector than in high growth markets. The Boston area has also emerged largely unscathed from the housing market downturn that has plagued much of the country. Though growth opportunities for 2008 are limited, the stability of the industrial market may be its greatest strength in the current economic uncertainty.

With little to stimulate the local industrial market, fundamentals will remain largely unchanged in the coming year. Absorption and rental rates for all types of product will be on par with their three-year averages. Rentable inventory levels will remain constant as developers have little incentive to go forward with speculative construction projects. New owner-occupied facilities are being delivered at a more frequent clip, especially in the drug manufacturing industry. Both Bristol-Myers Squibb and Genzyme will be constructing new facilities in 2008 in Devens and Allston, respectively.

Though demand for industrial space is light overall, certain types of product are receiving healthy tenant interest. Flex properties inside Rte. 128 are popular among tenants with 30,000 to 50,000 s/f space requirements. This area offers the best access to the industrial labor pool near Boston. Though availability in this product type is tight, there is not likely to be any forthcoming new supply as the strength of the office market ensures that all potential development sites are relegated to office use as the highest and best purpose for land near the city.

In this current static landscape, opportunities for industrial tenants are ripe. The chance to trade up in product class is as good now as at any time. Tenants now occupying facilities with 15 to 20-foot clear heights, no ESFR sprinklers and limited dock doors can find numerous options available for first-rate facilities without increasing occupancy costs. An abundance of product on the market translates into negotiating leverage for tenants in 2008.

The problem challenging the industrial market is how to retain a healthy demand for tenancy in light of current economic conditions. Rising costs for energy and raw materials are impacting the bottom line for manufacturing firms just as the economy is poised to take a step backwards with the threat of recession.

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