



nerej

Boston commercial real estate in 2008 has started where it left off in 2007

February 27, 2008 - Spotlights

Boston commercial real estate in 2008 has started about where it left off in 2007 - an active office market concentrated in the obvious areas, sporadic industrial activity, and a very quiet investment market. Current activity suggests that the 2008 market will maintain this pace without a lot of momentum, but better than the economic indicators would suggest.

Software, defense, biotech and medical continue to be the economic drivers of this region. Most of the activity continues to be in the markets north of the Mass. Tpke. but concentrated between from Wellesley north to Lexington. Waltham is ground zero of activity and the past quarter has seen no change while, at the other end of the spectrum, the north shore has been very quiet but with significant deals in the pipeline. The industrial sector saw significant absorption but it was concentrated in a few deals. Buildings are seeing steady activity and it bodes well for the year. Investment sales have dropped off significantly with continuing credit crunch and underwriting changes with no abatement in sight.

Beginning with the industrial sector, the vacancy remains flat at 15% with just over a million absorbed in the past quarter. Contributing to this total in a significant way are very recent deals: Petco signing for 104,000 s/f in Myles Standish Park, Taunton; L3 leasing 216,000 s/f at 2 Nemco Way, Ayer for their security business and US Gypsum moving to 234,000 s/f at 50 Independence Way in Ayer, a relocation created by the development of Westwood Station. Spire Corp. signed a 144,000 s/f lease in Bedford. This accounts for a majority of recent industrial activity. Currently, in this same market area, brokers indicate 45 requirements over 30,000 s/f with nine seeking space in excess of 100,000 s/f. The average user continues to require less than 40,000 s/f. Lease rates remain between \$5.75 and \$6.50.

The south market is experiencing all time low vacancy rates. Myles Standish is at 1.7% with 5.8 million s/f; Walpole Park South is at 2.3% with 460,000 s/f and Mansfield is at 4% with 5.4 million s/f.

To help ease the tight market, 256 acres have been made available in phase 4 of the Myles Standish. Not surprisingly speculative industrial construction is underway with Condyne starting 330,000 s/f in Liberty Union Industrial Park and 600,000 in Littleton.

The office sector has been equally choppy. As mentioned, Waltham is a bright spot with it's vacancy rate down to 11%. The Davis Companies and Boston Properties signed significant leases on new projects: National Grid leasing 312,000 s/f at Waltham Woods and Phase Forward leasing 165,000 s/f at 77 CityPoint. There is a pending lease of 85,000 s/f also in Waltham; the Middlesex County Superior Court will occupy 140,000 s/f at Cummings new Trade Center Park in Woburn. Another division of the Middlesex Court relocation will occupy 50,000 s/f at Dragon Court, Woburn.

There are office tenants in the marketplace but because of the abundance of space, they are taking

their time with decisions. With an overall vacancy of 14%, the market appears stable. However, the 495 north market is close to 25% vacant, the north shore is 17% and the metro west is over 18%. Rental rates range from a high of \$40 gross in Waltham to \$21 gross on the north shore and in metro west. The 495 north market is closer to \$18 gross.

Suburban investment sales include Concord Rd., Billerica for \$155 per s/f by KBS; Intercontinental's purchase of the Locke Dr. portfolio with 290,000 s/f for just shy of \$100 per s/f and the Littleton Distribution Center with 240,000 s/f purchase by Condyne for \$92 per s/f. Surprisingly, user sales were close to non existent. Other notable sales were in Woburn with the 56,400 s/f Cambridge Rd. building at \$88 per s/f and the 55,000 s/f 130 New Boston St. at \$113 per s/f while Flatley sold the 105,000 s/f 580 Main St. in Bolton at \$132 per s/f. A 30,000 s/f industrial building recently sold in Woburn for \$103 per s/f. Industrial buildings are commanding prices regularly between \$85-100 per s/f.

Not surprisingly, speculative construction activity has slowed compared to years past but not as much as expected. Deliveries for office product are down to 1.47 million feet in 2007 from 2.33 and 1.61 million feet in 2005 and 2006 respectively. Notable projects in addition to the previously mentioned Trade Center North, 77 CityPoint and Waltham Woods are the 65,000 s/f 138 Conant St. in Beverly and the 180,000 s/f 5 Wall St. in Burlington.

There is no question there is an air of uncertainty in the marketplace but current activity suggests that things are far from at a standstill. 2007 was a record year for many and while 2008 will no doubt be a fraction of that, it will be better than the economic bad news would suggest.

Greg Klemmer, SIOR, is president at Klemmer Associates, Winchester, Mass.

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