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This year will bring modest gains in all of New England's commercial real estate sectors

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All signs point to a continued recovery in the commercial real estate market in New England and specifically in the Massachusetts market. Modest gains will continue to be seen in occupancy, rents and value in most commercial sectors. Although, the recovery has been slower than most would prefer, there should be a more noticeable gain in 2013, especially in the multifamily sector.

The multifamily market has been central to the economic recovery in the past year and will continue to lead it in 2013. According to the Commerce Department, builders broke ground on the most apartments Nationwide, since 2008 and multi-family construction has increased significantly in New England as a response to the strong rental demand. Over 8,000 units were permitted in 2012, and include almost 2,600 units in Boston alone. These new units in Boston consist of major new construction projects of a planned \$200 million development consisting of 503 apartments in Boston's West End, 4 new apartment complexes on the waterfront and another 600 apartment units on the edge of what was the Combat Zone. This residential component will build a new vitality in the Downtown District that will open more construction opportunities.

Boston's vacancy rate is 3.6% as compared to the national vacancy rate of 4.3%, according to the National Association of Realtors. Apartment market conditions in most other New England regional metropolitan areas are also tight with Providence at a low of 3.8%. The average rents have increased across the region and depending on the submarket by 2 to 3%.

2013 will continue to see a healthy multifamily market with rents rising only slightly, due to a competitive market created by new construction.

By contrast to the multifamily market, the office sector, although improving, is still in a slow recovery. No drum rolls here yet. Though the National vacancy rate fell to 16.7%, it is still 2.7% higher than its 20 year national average of 14%. If there is good news in this sector it's that the Boston office vacancy rate is more in line with the 20 year national average at 14.7%. The Boston's central business district absorbed in 2012, more than 1.2 million s/f of office space, and was in the top 10 strongest markets in the country. Two of Boston's top 2013 projects include offices for Liberty Mutual in the Back Bay and Vertex Pharmaceuticals in the Seaport District.

Leases continued to dribble in, with many small transactions, in the suburbs. As a result of this overall hesitant leasing activity, asking rents remained somewhat static, however the average suburban vacancy did end the year at a much lower 15.4%. This was due to overall suburban absorption of approximately 800,000 s/f with the largest gain centered along the Rte.128 Beltway.

Given the limited, below historic average, new construction, landlords will see modestly improved occupancy, and all signs point to an office market that will continue to chug along in 2013. No significant increase in rents will occur and any increase in property value will continue to result because of low interest rates. Traditionally wanting to stabilize properties with long term leases,

landlords, would do well to limit the length of new leases and renewals in anticipation of a more active recovery in 2015.

Out of 200 U.S. retail markets, Boston placed #13 with a 6.9% vacancy rate. This compares to a national average vacancy rate of 10.7%. For the second year in a row, The New England retail sector was a bright spot, along with the multi family sector.

Holiday sales increased in Massachusetts for the third consecutive year, contributing to a Happy New Year for the retail real estate sector, which will be reflected in additional percentage rent. Heavy discounting at the end of December contributed to the unexpected increase in holiday sales and was especially meaningful in light of the uncertainties of the "fiscal cliff."

Low vacancy has also encouraged and will continue to encourage new retail construction with soon to be completed Chestnut Hill Sq. across the street from the Chestnut Hill Mall, the first Target Store in the new Fenway Triangle in the Fenway area, a revived University Station project in Westwood, and a rejuvenated Newbury St. with an all time low vacancy rate of 3.5%. Over \$2 billion of development is planned or in progress on Newbury St. and its adjacent areas, including an expanded Chanel Store, a Restoration Hardware in the old Louis Men's store building and redevelopment of the Copley Place Mall.

In 2013 we will see a stabilized vacancy rate and rents strengthening in the retail sector.

Finally, the industrial market improved considerably in 2012 with a major decline in vacancy. The warehouse sector experienced the most gain in occupancy with a decline in vacancy rate from 16.9% at the end of 2011 to 11.6% by the end of 2012. Flex and research/development, although experienced a lot of leasing activity, dropped from 16.8% to only 15.9% during that same period. This compares to an overall national industrial vacancy rate of 10.8% for both sectors.

Most of the leasing activity in the Boston and Massachusetts markets are being fueled by technology and life sciences. Nine out of 10 of the major biopharmaceutical companies have major research facilities in the Greater Boston market and many are expanding their local research and development operations which will require additional space.

Greater Boston will continue to see a dramatic expansion of the biotech sector in not only Cambridge but in Boston's Seaport District. New biotechnology related buildings under construction or recently completed included 4 in the Biotech corridor in Cambridge, 1 in the Longwood Medical Area, 1 in the Back Bay, 3 in the Seaport's Innovation District including a reuse of a rooftop for an organic farm. Biogen, Pfizer and Vertex Pharmaceuticals continued to be the leaders in the R&D expansion effort.

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