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Jones Lang LaSalle™s Q4 2013 Greater Boston office analysis

Boston enters 2014 on solid footing

January 10, 2014 - Front Section

Fourth quarter 2013 data for the Greater Boston markets released by Jones Lang LaSalle reveal that Boston ended the year on a good note. The Greater Boston market registered 5.6% rent growth year-over-year, and a positive 602,000 s/f in direct net absorption.

Through November the Greater Boston NECTA added 52,000 jobs, a level unseen since the early 2000's. "Greater Boston demonstrated its resilience this year," said JLL research director Lori Mabardi. "More than 50% of these new jobs were added since August, showing a shift in momentum that may be taking shape. While employment data can be revised dramatically, the tightening in fundamentals and the leasing activity we are seeing in the market both support this trend in employment growth.

Market conditions

Greater Boston closed out the year with rents up 5.6% over 2012 levels. The vacancy rate has continued to decline coming in at 13.8%, 300 basis points above the metro long-run average.

"At the heart of Boston's story is the tail of two trends," Mabardi said. "On one side, the large corporates that are mature and growing at a slower pace, continue to explore built-to-suit (BTS) possibilities. There are a number of BTS projects underway in the city and in the suburbs. On the other side, small-to-mid-size, fast growing firms are filling the non-traditional office space in secondary submarkets creating pockets of growth in Boston and surrounding areas. An increase in amenities is coming in to cater to the growing workforce."

In the CBD, 2013 was primarily a Class B story. This class of buildings exhibited 6.2% rent growth in the year, ending at an average of \$39.27. The vacancy rate of the Class B segment reached a level unseen since 2001. In 2010, for the first time, Class B vacancy rates dipped below Class A vacancy rates and they have remained below ever since. This change is due to a shifting in tenant demand and of industries that are coming into the city, and is benefitting periphery submarkets like South Station.

In the suburbs, while the northwest submarket which includes Burlington continued to see a lot of growth in leasing and sales, holistically all the suburbs are improving and gaining traction.

Development is at the core of Greater Boston's story right now as well. This quarter, notable news includes the full completion of Biogen's almost 500,000 s/f, built-to-suit projects in Cambridge. In Boston, the Boston Redevelopment Authority approved the Government Center Garage redevelopment. The mixed-use project will feature 812 residential units, 196 hotel rooms, retail amenities and 1.1 million s/f of office space. In the suburbs, Partner's Healthcare has committed to a build-to-suit for up to 1.1 million s/f at Assembly Sq. in Somerville. Plans for Assembly Sq. include

1.8 million s/f of commercial space, 500,000 s/f of retail, a theater, a Legoland Discovery Center, a hotel and 2,100 residential units – all on the Orange Line.

Outlook

“It is a very exciting time to be in Boston as a resident, a tenant or an investor,” said Mabardi. “The metro area appears to be undergoing a transformation. Being an innovation economy is positioning Boston well long term. Being an innovation economy that evolves with changing times and demographics, however, can only further support Boston’s long term outlook. The metro area appears to be doing just that.”

Jones Lang LaSalle is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate.

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