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I-495/Mass. Pike office market fundamentals still remain healthy and will remain throughout 2008

March 26, 2008 - Spotlights

The Boston suburban office market has strong fundamentals which will carry through the remainder of 2008. We have experienced 14 consecutive quarters of positive net absorption. The fourth quarter of 2007 experienced 342,640 s/f of absorption, which lowered the combined availability rate of this 78.6 million s/f market to 19.2%.

The Framingham/Natick area continues to be the strongest submarket with a combined availability of 8.7%, with class "A" asking rates climbing to $28.50 per s/f. The I-495 North market continues to lag behind at 24.2% but has experienced significant positive absorption over the past year. The Central 128 Corridor continues to show the greatest improvement and the largest spike in rents, with the availability declining to 14.4%. We are seeing Class "A" trophy properties achieving $43-$45.00 per s/f in the Waltham area.

The I-495 Central market continues to benefit from the scarcity of options in the Wellesley/Natick/Framingham area driving down its availability to 21.8% from 28.1% just a year ago. We have seen companies such as Iron Mountain expand into 80,000 s/f at 118 Turnpike Rd. in Southboro and Netezza Corp. expand into 59,000 s/f from Framingham to 26 Forest in Marlboro, just to name a few. Due to the high cost of housing, the employee base of these companies continue to migrate along I-495 and beyond, which makes it more compelling for companies to move further west.

Despite the negative perception of our economy, the Boston suburban commercial real estate market's fundamentals are still quite healthy. Demand for space has slowed a bit, but rents are relatively steady and supply is in check. Developers have refrained from overbuilding with only two spec projects underway in the Metrowest area: 134 Turnpike Rd. in Southboro, Capital Group Properties is finishing a 50,000 s/f spec building and First Colony Development has the steel up for a 100,000 s/f first class office building in Marlboro. Additional projects under construction along Rte. 128 include Cummings Properties building 377,000 s/f of first class office space at 300 Sylvan Rd. in Woburn, The Gutierrez Company building 181,700 s/f at Five Wall St. in Burlington, Davis Marcus's 180,000 s/f at 850 Winter St. and Neelon Properties has 110,000 s/f in Waltham at Overlook Center. The vacancy rates in most markets are low and the activity we are seeing is true demand, unlike what we experienced during the dot.com era. The financial institutions have tightened lending practices but have plenty of cash to offer to both qualified investors and users.

According to Edward Leamer, director of the UCLA Anderson Forecast, he believes the credit crunch is really limited to the mortgage arena. The crisis affecting Wall St., which is reeling from billions of dollars in write-downs largely tied to sub-prime mortgages, isn't spilling over onto Main St. "The real economy lives and dies on the basis of firms making real investment decisions: building new factories, new offices or buying equipment. There is no evidence of the so-called credit crunch affecting that activity." Because of fairly strong cash flows, many corporations still have little need to borrow.

In the short term of 2008 we don't believe the market will experience many large portfolio trades. However, this doesn't mean that the leverage will shift from the seller to the buyer. Pension funds, insurance companies, REITs and private equity funds still have plenty of capital for pursuing quality assets that are priced competitively.

For the remainder of 2008 we see moderate positive absorption. The upward pressure on rental rates will slow, with only the stronger submarkets posting marginal rental growth. Clearly, many companies will be focusing on their bottom line. 2008 will have its challenges, but strong market fundamentals will carry us through this period of economic uncertainty.

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