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Office market experiences moderate growth and strong fundamentals in the Northwest

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After a record-breaking 2007, the Northwest office market (Burlington, Bedford, Lexington, Billerica, and Concord) experienced moderate growth in the first quarter of 2008 recording 27,102 s/f of positive net absorption. The Burlington submarket in particular, saw demand cool from one year ago, posting 73,476 s/f of negative net absorption year-to-date. A significant portion of this negative net absorption can be attributed to proactive leasing strategies by landlords. For example, New England Executive Park has over 72,000 s/f of office space on the market for future occupancy, in order to create large blocks of contiguous space to attract larger users to the park.

The sublease market registered a slight up-tick in available space during the first quarter, with eMed and Sophos offering approximately 50,000 s/f at 76 Blanchard Rd. and 3 Van De Graaff Dr., respectively. Sophos placed its space on the sublease market due to its recent growth/expansion needs, and is presently searching for Burlington options from 35,000-40,000 s/f. In contrast to Burlington's slowdown in transactions, Lexington experienced an increase in leasing activity with 118,925 s/f of occupancy gains in the first quarter, helping sustain the health of the Northwest overall.

Notable transactions in the first quarter were limited to mid and small-sized tenants. Concert Pharmaceuticals signed the largest deal in the market, with a seven-year direct lease at 99 Hayden Ave. for 41,370 s/f. Precision Engineering secured a 40,000 s/f lease at 60 Westview St. from Alexandria Real Estate Equities. Vistaprint expanded into 39,197 s/f at 95 Hayden Ave. Saba Software and UBC Healthcare rounded out leasing activity this quarter, signing direct deals for 13,625 and 20,400 s/f, respectively.

Both the vacancy and availability rates remained flat during Q1, but have fallen 1.4 and 2.9 percentage points, respectively, from one year ago. The availability rate in Lexington has declined more substantially, and at 12% is much lower than the 22% rate recorded in the first quarter of 2007.

Rents Increase

Average asking rents have increased by over 18% since first quarter 2007, and, while flattening in certain market segments, continue to inch upward in others as new construction remains limited. Class A average asking rents finished the quarter at \$27.41 per s/f gross. Class B assets are quoting on average \$22.18 per s/f gross. The Burlington Class A submarket continues to push rates with average asking rents of \$33.78 per s/f gross.

Following the national trend, investment sales activity was sluggish as uncertainty continues to plague the debt markets. The only notable transaction of the first quarter was New Boston Fund's sale of 5 Burlington Woods to ELV Associates for \$21.3 million (\$206 per s/f).

Market Outlook

We expect Burlington to post lower absorption in 2008 compared to last year's record level. However, periphery towns such as Lexington, Bedford and Billerica have begun to experience increased activity, as limited availability and higher pricing in Burlington and Waltham push young growing tenants to consider locations along Rtes. 128, 2, and recently expanded Rte. 3.

Demand remains strong, with Jones Lang LaSalle tracking approximately 3.1 million s/f of requirements along the Northwest corridor. Much of this activity represents continued growth and consolidation from tenants in the high tech, financial services, software and biomedical industries. While some of these tenants have slowed or delayed their search due to current economic conditions, the majority will have to make decisions soon due to lease expirations or the need to accommodate growth spurts.

Given the limited amount of available space in this corridor, and the historically high rental rates being achieved, leasing fundamentals remain strong. Similar to downtown Boston and Cambridge, where high rents, relatively low vacancy, and limited speculative development is also prominent, the Northwest market is well positioned to remain healthy in the wake of an economic downturn.

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