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2015: Commercial real estate market looks bright in New England

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Although the multi family market will continue to lead our real estate recovery, commercial demand is fueling it. The commercial real estate market got a real boost from the economic momentum in 2014. In particular, the Massachusetts unemployment rate has been the lowest it's been in 6 years and since 2009, and other economic Indexes have also improved, positively

2014 started to bring noticeable improvement in the absorption of office space within the Back Bay, the Fenway area and the Government Center/North Station areas leading the way with an overwhelmingly positive absorption of vacant space. The downtown areas closed the year at an average vacancy rate of 9.4%. The rte.128 beltway is the second major submarket to experience a decline in vacancy with a 2014 year end vacancy rate at an average of 17.8%. The highest vacancies are still occurring in the rte. 495 beltway with many buildings experiencing vacancy rates well into the high 20% range. Overall asking rents for office space are also going up on average of approximately 4%, while vacancy is decreasing. Asking rents for Boston's Class A office space has made a pre-recession comeback to the low \$50 s per s/f asking rent. Asking rents in the suburbs are beginning to look reasonable in the low \$20s because it includes free parking, unlike the many city neighborhood office buildings, in this market, where parking is at a premium and monthly fees can add up to an additional \$400 per space per month. 2015 will be the year to watch the office sector as Greater Boston remains in the top 15 markets and as this segment of the market strengthens further.

In the Boston metro area, we will continue to see a landlord's market in the apartment sector. Apartment vacancy rates stabilized in 2014 at about 4.5%. With approximately 50 new apartment projects, this low vacancy rate confirms the high absorption and demand in this area. Greater Boston's rental market continues to be on the rise and improving employment trends and a positive outlook of the local economy make Boston one of the most stable markets in the nation. Rents rose on the average of about 3.5% in 2014 and will keep the same pace in 2015. Even with the more than 20,000 units in the construction pipeline, the Greater Boston market is expected to keep pace with and remain one of the strongest markets. We can anticipate another great year in the apartment industry in 2015.

The retail market ended the year, 2014 with a vacancy rate within the low end of the major national markets, at approximately 6.3% slightly down from 2013. The suburban market had a slightly higher vacancy, although many retail centers had a good year renting much of their available space. The Boston market was once again in the top 10 national retail markets. Overall net absorption was positive with average rents rising approximately 2%. In 2015 we will see the retail market strength even more within the high end shopping areas, such as Newbury St., Chestnut Hill, and Copley Place etc. enjoying even higher occupancy. The metro market will have another year of net

absorption of space while delivering approximately 2 million s/f of new retail space and vacancy should continue to fall to within the upper 5% range with effective rents increasing.

The industrial property market continued to see marginal change in rents and occupancy with the exception of the Cambridge and Seaport submarkets. These submarkets experienced a very robust year with low vacancy and rising rents. The overall Boston market, however, continued to experience a high vacancy rate of approximately 17.9% well above the national average of 9% in this industrial property sector. Looking forward into 2015, performance in the industrial property market is expected to remain mixed.

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