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Investment sales leading the way in the Greater Boston industrial market

September 26, 2007 - Spotlights

The Greater Boston industrial and flex market has seen a couple of good quarters by many barometers considering the uncertainty related to global issues. Sales continue to out-pace all deal types with investment sales leading the way. Vacancies have decreased slightly for industrial space while suburban office leasing has seen a considerable pickup in activity, mostly Waltham/Wellesley, prompting new construction.

But any discussion on suburban real estate needs to start with investment sales especially the Equity Industrial portfolio sale which dwarfed all others. This \$515 million (\$46 per s/f) sale included 27 properties spread over seven different states and was sold to a joint venture including locally owned Calare Properties. Another major portfolio sale included 10 buildings in Cherry Hill Park, Beverly and Danvers and two in Forge Park, Franklin totaling 654,000 s/f plus land for \$71.55 million s/f (over \$100 per s/f). A six building portfolio, 8-22 Forge Park, Franklin was purchased by Colonial Realty partners for \$67.8 million (\$109 per s/f) and KS Partners continues their buying spree with the purchase of the Fordham Rd. complex for \$26 million. To name just a few.

Users were prominent as well. Instrumentation Labs purchased 180 Hartwell Ave. in Bedford, a 400,000 s/f R&D building for \$29 million (\$72.2 per s/f). This property was spun-off by National Development to Vinco as part of the major Raytheon office lease in Woburn several years ago. IL had signed a long term lease and after lengthy "negotiations" purchased the property. Weir Valves bought 106,000 s/f in Ipswich for \$6.74 million (\$63.6 per s/f) built in 2002 for \$13 million. PUMA bought 104,000 s/f in Westford for \$11.5 million (\$109 per s/f). All of these sales were by users who had limited options.

There were significant leases that deserve mention. The largest was the IBM office lease of 490,000 s/f in Littleton. Surprisingly, their was competition (Raytheon) for this large block of Rte. 495 office space bought only a year ago by National Development. Industrial leases with IRobot (150,000 s/f Bedford), Sleepy's (142,000 s/f Franklin), and Merrill (90,000 s/f Tewksbury) and FedEx (180,000 s/f Northboro; 142,000 s/f Billerica; and 88,000 s/f West Bridgewater) highlighted their respective sectors.

The overall vacancy rate for eastern Massachusetts' industrial space is down slightly to around 15%. The south submarket is the largest market with slightly more than 100 million feet, with a slightly lower vacancy rate while the West, the smallest in size, has the highest at 19%. There was 2.1 million s/f absorbed so far this year, generally considered a good year.

That is the good news. Straw polls taken recently with brokers had interesting results. Many felt the first half of 2007 was very good with an up tick in activity coupled with the closing of many deals that really began 9-12 months ago. Despite that, new activity has come to a halt with many buildings having limited to no showings. Contractors indicate a concern over the next 6-9 months and

architects are equally concerned over the lack of new projects. This can be confirmed by a recent actual poll taken by SIOR.

The Summer 2007 Commercial Real Estate Index compiled by SIOR posted the steepest quarterly decline since SIOR began its indexation project in late 2005. The index showed the weakness as broad-based with slower leasing activity caused by a softening in the local and national economies, with the credit crunch, brought on by the sub-prime mortgage problems, as contributing factor. The index was based on replies from 367 SIOR participants who provided their views on market conditions in their respective markets in late July and early August. The industrial market was the hardest hit with the office market fairing well, especially in the northeast.

Based on these findings the concerns are founded but certainly not dire. The technology sector is doing well with new telecom and internet applications driving innovation and real growth. The specialty manufacturers continue to grow because we have the best machinists in the country. Biotechnology continues to attract the best companies in the world and our universities continue to provide talented graduates while their research provides cutting edge cures and new companies. Solve the lack of affordable housing and the positives outweigh the negative.

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