



# nerej

## **Outlook for second half 2015 for Boston metro real estate markets is consistently positive**

July 30, 2015 - Spotlights

The outlook for second half 2015 for Boston metro real estate markets is consistently positive in the commercial brokers' roundups. Extraordinary (record-breaking) volumes in absorption and construction in downtown and suburban office submarkets have resulted in balanced markets with upward pressure on rents and vacancy. Similarly, the Boston metro multifamily apartment market is setting records in volumes of deliveries, construction and pipelines in a broad geographic area. Demand derived from employment and income gains is moderately and consistently increasing powering absorption in a variety of commercial property markets. Some displacement and adjustment are reported in the markets. Some professional judgement and inquiry about underlying assumptions and methodology is requisite to fuller use of the data.

During the second quarter 2015 tenants absorbed 2 million s/f of office space in the Greater Boston area according to Transwestern. Downtown Boston tenants represented 861,000 s/f of the total metro absorption. Downtown class A vacancy dropped to 8.4% (availability of 13.3 %, the lowest since 2009) and asking rents increased to \$52.31 based on Transwestern quarterly report; and class B asking rents in the Seaport District have almost doubled since 2010 to \$41.98. Several large leasing transactions dominated the absorption for the quarter, and longitudinal smoothing will marginally reduce the extraordinary spike. Transwestern tracks a metro office inventory of approximately 182 million s/f of which: Boston - 72 million s/f; Cambridge - 11 million s/f; Rte. 128 - 61 million s/f; and I-495 - 35 million s/f. All submarkets have some record-breaking data even with longitudinal smoothing.

Newmark Grubb Knight Frank reports on a metro office inventory of approximately 176 million s/f, and reports an overall vacancy 11.1%, a ten-year low, and 3.5 million s/f of new additions under construction within the metro area. Marcus & Millichap estimates deliveries totaling 4 million s/f in the metro area during 2015 as compared with 2.4 million during 2014. Despite historic volumes of addition, Marcus & Millichap expects vacancy rates to decline indicating extraordinary levels of absorption to continue in 2015.

Multifamily cranes outnumber office cranes in the Boston metro area. Nearly 9,000 units were under construction during first quarter 2015 according to Marcus & Millichap. Estimated completions for the year ending March 2015 totaled 7,000 units and for the prior twelve months, 5,000 units. More than 1,400 units were delivered in the first quarter 2015. Completions for 2015 are projected to reach 9,000 units, comprising 7,500 market-rate units, 700 senior units and 700 student and affordable housing units. Marcus & Millichap estimates the metro vacancy rate will increase as deliveries occur by 30 basis points to 4.3% in 2015 similar to the increase in vacancy during 2014 as new units were absorbed. During the first quarter 2015, rents achieved a 3.7% year over year increase to \$1,754 per month following a 2.9% increase for the prior twelve months. By year-end 2015, Marcus &

Millichap estimates market wide rent will increase 3.1% to \$1,810 per month.

Local employment gains support the buoyant outlook embraced by the commercial brokerage community. Massachusetts unemployment rate remained at 4.6% in June based on July 16, 2015 release from Department of Labor and Workforce Development. June job gains of 10,500 marked the tenth consecutive month of increased employment. The unemployment rate has declined 1.1% during the prior year from 5.7% in June 2014. The state unemployment rate of 4.6% is .7% lower than the national rate of 5.3% and has been achieved in spite of significant increases in the labor force.

The Fed is cautiously optimistic, as reflected in FED Chair Yellen's congressional testimony. FED officials expect 2.5-3% GDP growth for second quarter 2015. Bank of America/Merrill Lynch reports market expectations of 40% for a September rate adjustment. Fed's data-dependent approach to rate adjustments should be supported by broadly, if only moderately, positive economic indicators. Global risks appear to have downward pressure. Capital markets are firming and adjusting to short term action by the FED.

The Boston metro area has experienced accelerated economic activity. For the commercial real estate markets, the impact of the recovery and expansion has been and continues to be documented. This next period of absorption and adjustment will be highly competitive. Several scenarios are possible and credible.

The roundups from the commercial brokerage community provide a useful market and longitudinal context for underwriting and analyzing property investments.

David Kirk, CRE, MAI., FRICS, is principal and founder of Kirk & Company, Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540