



nerej

CB Richard Ellis updates on office/flex, multi-housing and investment property markets

June 18, 2008 - Connecticut

Office/Flex Market Update for the I-91 South Corridor By Jennifer Gosselin

Space efficiency has become more important than ever before with utility rates and improvement costs at an all time high. Trends include early renewals, consolidation, and reusing second generation space to keep costs at a minimum.

Availability has increased from 15.7% in second quarter 2007 to 19.83% currently along the I-91 corridor. A number of companies have downsized or merged into one office to decrease their rental obligations. The most significant impact on available space was the give-back of 70,000 s/f at 500 Enterprise Dr. in Rocky Hill during the first quarter. In addition, Workstage's 305,000 s/f, campus at Greenhill in Wallingford, remains the largest block of office space on the market in greater New Haven.

Flex buildings continue to be a popular alternative for users that require economical space. Tenants can lease from 5,000 to 58,500 s/f in 2 new buildings at WinBrook Park in Rocky Hill. Despite the increase of space on the market, activity has been strong.

Rental rates have appreciated in the last 6 months due to increased costs. Asking rates for class A office space are now \$23.50 - \$24.00 per s/f gross. Landlord's contribution to tenant improvement allowances average between \$10 - 15 per s/f for a 5-year term. Tenants must be creative to fit their requirements into existing office space or contribute to the cost of tenant improvements to keep overall transaction costs down.

The Greater Hartford Multi-Housing Market By Jessa Kurzman

As investors continue to adjust to current lending constraints, sales volume within the greater Hartford multi-housing market will increase during the second half of 2008. Although the economy may show signs of weakening, multi-housing fundamentals will remain strong and sales activity will continue throughout the year.

Changes within the capital markets have decreased investment sales velocity, however multi-housing investments are often looked at as a safer investment during economic uncertainty and both private and institutional investors remain active within the market. Because the greater Hartford market provided a reasonably limited amount of new supply, the area has avoided the deflating housing bubble that occurred in other areas. According to REIS, on a one-year annualized basis, greater Hartford demonstrated an apartment inventory increase of just .5%, half of the national inventory growth rate of 1%. This lack of new construction contributes to the lower vacancy and steady rent growth within the area. As of the first quarter 2008, REIS reported a year-to-date average rent increase of 1.1% in Hartford County, compared to the national increase of .9%. Vacancy was just 4.7%, compared to a national rate of 5.9%. These trends of steady rent growth and declining vacancy will continue through 2008.

Investment Properties Proves Strong for First Half of 2008 By Anna Kocsonddy

As the first half of 2008 comes to an end, 14 office buildings have sold with another 6 under contract to close in the next 60 days; a positive sign in the wake of the on-going turbulence in the capital markets. The 14 building sales aggregate \$167 million in sale proceeds totaling approximately 1 million s/f. These figures compare favorably to the first half of 2007 sales volume - 8 buildings for \$178 million in sale proceeds totaling 1.7 million s/f. This same volume is not expected for the second half of 2008, as sellers are less willing to test the waters due to capital markets uncertainty. The two largest sales both took place in Farmington - the Sard Portfolio and 8 Farm Springs Rd. The Sard Corp. sold their remaining 3 assets in Farmington, 195 Farmington Ave., 2 Batterson Park Rd. and Farmington Mountain Office Park, for more than \$180 per s/f and a 7.5% capitalization rate to Lexham Ventures. AFI/ESCO sold 8 Farm Springs Road for \$207 per s/f to Lighthouse, a N.Y. based REIT, at a 9.7% capitalization rate. 8 Farm Springs Rd. had less than 4 years remaining on a lease with The Hartford at a significantly above market rent.

Jennifer Gosselin, Jessa Kurzman and Anna Kocsondy are associates at CB Richard Ellis, Hartford, Conn.

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