nerej
CELEBRATING 55 YEARS

NA Hunneman's Rtes. 128 and 495 spring and summer market update

August 07, 2008 - Spotlights

The Rte. 128 office market remains strong as there are few signs of deceleration. There has been over 500,000 s/f of positive net absorption in the first quarter of 2008, and vacancy rates dropped another 50 basis points to 12.6% since the end of 2007. Average rental rates vary depending on the location and condition of the building, ranging from $17 per s/f for older class B space to $40 per s/f for newly constructed class A space, but are expected to level off this year. Demand remains constant in this market. Two of the larger tenants in the market are Citizens Bank, seeking up to 200,000 s/f in the South Shore area, and VistaPrint, currently in Lexington, looking for at least 400,000 s/f of expansion space.

The 128 market is still providing rent relief for Boston and Cambridge tenants. Astratech recently moved its Cambridge and Waltham operations to a newly renovated office at 590 Lincoln St. in Waltham. The constant flow of tenants has caused more suburban tenants to look beyond Waltham and Burlington for better deals. This has sustained activity in the 128 Northwest market, where the vacancy rate has dropped from 17.1% in the first quarter of 2007 to 12.7% currently. In Billerica, Parexel signed a 100,000 s/f lease at the Fields Office Park, and Soapstone will soon follow with a 60,000 s/f lease at 1 Federal St., also in the same complex.

FORECAST:

Much of this demand is driven by industries that are minimally affected by the downturn in the nation's economy, including bio-tech and high tech companies that see an opportunity to negotiate for more lease incentives. Tenants will err on the side of caution but for many tenants already in the market that will mean looking at $30-$40 per s/f class A space in the suburbs versus $50-$60 per s/f class A space in a downtown tower. The outlook is good for the Rte. 128 office market in the near future. However, as more companies merge and preemptively downsize, there may be an influx of sublease space which may be the wild card for the latter half of 2008.

The leasing velocity that the Rte. 495 office market experienced in 2007 has tapered off in the first quarter of 2008. The vacancy rate for class A and B space is up from 18.8% in the fourth quarter of 2007 to 19.6% in 2008; rents are down a little from $19.01 per s/f to $18.84 per s/f; and net absorption is down slightly at negative 75,000 s/f. There has also been a small increase in sublease space due to companies consolidating extra space for greater efficiency in anticipation of a slow year. Kronos put 110,000 s/f of sublease space on the market at 300 Billerica Rd. in Chelmsford. In comparison to 2007, the Rte. 495 area is off to a slow start; however, these numbers are not cause for alarm as the 495 belt has recovered substantially in the past decade from vacancy rates that hovered around 30% in 2000.

There is also steady organic growth along the 495 North and 495 West corridors. In Tewksbury, AARP Financial renewed and expanded into 18,000 s/f at 2 Highwood Dr. Solomon Pond Park in Marlborough has had several lease expansions. Creganna Medical Devices from Ireland leased another 10,000 s/f for a total of 20,000 s/f, and Blue Cod Technologies grew from 18,500 s/f to 31,000 s/f. Optos will relocate from 14,477 s/f at 155 Northborough Rd. in Southborough and 7,800 s/f at 199 Forest St. in Marlborough to a larger space of 26,648 s/f at 67 Forest St. in Marlborough.

FORECAST:

Larger tenants in the market still have plenty of options in the Rte. 495 area especially in the north with 190,000 s/f existing and 400,000 s/f proposed at Cross Point in Chelmsford; 316,000 s/f at Brickstone Square in Andover; and 292,000 s/f at 4 buildings on Apollo Dr. in Chelmsford. Medical device, healthcare, technology and defense companies often prefer these buildings for the ample space and superior amenities. Tenants in the Rte. 495 market have several luxuries that other markets cannot offer: the best value, most selection, and room for expansion. Demand from organic growth is expected to continue along with demand from sizable users such as Raytheon. These factors, along with limited new construction and no speculative construction, should stabilize the market in 2008.

The Boston industrial market, which consists of warehouse and manufacturing/distribution buildings, is off to a fair start in 2008. Vacancy rates are on par with the end of 2007. Leasing activity is up, however with smaller deals, resulting in nearly one million s/f of negative net absorption. A majority of this absorption activity is in the Rte. 128 South submarket. Over 400,000 s/f came onto the market at 625 University Ave. in Norwood as Canton-based Reebok plans to consolidate distribution operations in South Carolina; and another 400,000 s/f block of warehouse space was added at 560 Oak St. in Brockton. Despite this influx of space, industrial leasing rates have managed to creep up by $0.11 to an average of $6.34 per s/f on a triple net basis.

In contrast, flex/R&D market is off to a stronger start with vacancy rates declining yet again from 14.8% to 13.4%. This impressive 140 basis point drop can be attributed to activity in the Rte. 128 North and Northwest quadrant where GSI Group leased 147,000 s/f at 125 Middlesex Tpke. in Bedford, and Nexx Systems has committed to 40,000 s/f at 900 Middlesex Tpke. in Billerica. Another factor is an increase in sublease activity, with Zink Imaging leasing 80,000 s/f from Affymetrix at 16 Crosby Dr. in Bedford, and Olympus NTD agreeing to lease 40,000 s/f at 40 Woerd Ave. in Waltham from Cisco. Average rental rates are stable at $10.65 per s/f NNN which reflects a minuscule $0.02 drop from the last quarter. Overall absorption is down at negative 500,000 s/f, almost all of which is in the Rte. 495 North submarket at 1600 Osgood St. in North Andover, where Lucent continues to shrink its space needs.

FORECAST:

The motto for the industrial market continues to be slow and steady, while the flex/R&D market is witnessing more growth as a greater number of high tech and biotech companies require research space, especially as environmental science becomes a more active industry. Initially much of this demand will be for space less than 100,000 s/f which will result in less absorption, but rents and vacancy should only waver, stabilizing in the second half of 2008.