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Colliers Meredith & Grew Suburban Market Viewpoint including significant transactions

August 07, 2008 - Spotlights

The Suburban Boston office and R&D market is "stuck in neutral" with a vacancy rate that has been slightly over the 17% mark since the fourth quarter 2007. Totalling approximately 124 million s/f in size, performance and product varies from one submarket to the next.

SUPPLY AND DEMAND

* After a few years of relatively limited new construction, over 1.7 million s/f of new office space will be added to the suburban supply in 2008. This represents the most significant annual addition since 2002.

* Demand is steady, with nearly 300 companies seeking approximately 13 million s/f. This represents a diverse group of industries, with traditional drivers including technology and business services firms.

Some of the larger tenants currently in the market with space requirements over the next eighteen months include:

State Street Corp., 1,000,000 s/f, Financial Services

Mathworks, 800,000 s/f, Computer Software

Raytheon, 500,000 s/f, Aerospace and Defense

Medline Industries, 400,000 s/f, Medical Equipment

Avid Tech, 350,000 s/f, Computer Software

Solidworks, 250,000 s/f, Computer Software

ABSORPTION & VACANCY

* Halfway through 2008, leasing fundamentals are sluggish but holding steady. Net absorption across all submarkets was just over 1 million s/f, compared to 1.5 million s/f through the first six months of 2007.

* The Rte. 495 submarkets report a combined vacancy rate of 21.9%, still a significant performance gap compared to the Rte. 128 submarkets at 15.1%.

OFFICE RENTAL RATES

* The weighted average rental rate range depends upon building age, location and amenities - nearly half of the current suburban supply was built in the 1980s.

* The weighted average asking rent for suburban office space, including both Class A and Class B properties, was \$23.84 per s/f at the end of the second quarter compared to \$21.63 per s/f twelve months ago.

* Office rents range from a low of \$17.84 per s/f in the Rte. 495 North submarket to \$30.67 per s/f in the Rte. 128 Mass. Pike submarket. Nonetheless, with comparable rates in Cambridge and Boston of \$43.35 per s/f and \$51.55 per s/f, respectively, the suburbs do provide an alternative to tenants seeking value, larger blocks of availability, and free parking.

DEVELOPMENT PIPELINE

* Two projects that came online during the quarter were:

Davis Marcus Partners' 850 Winter St., Waltham (180,000 s/f) and The Flatley Company's 30 Braintree Hill Office Park, Braintree (160,000 s/f). Both properties are 100% available.

Significant lease transactions during the first half of the year include:

Shire plc, Pharmaceuticals, 400 Patriot Way, Lexington, 180,000 s/f; Phase Forward, Computer Software & Services, 77 CityPoint, Waltham, 165,000 s/f; Middlesex County Court, Government, 200 Sylvan Rd., Woburn, 132,000 s/f; Parexel International Corporation, Biotechnology Research Services, 2 Federal St., Billerica, 100,000 s/f; Autodesk, Computer Software & Services, 1560 Trapelo Rd., Waltham, 65,000 s/f; Foster-Miller, Inc., Engineering Services, 15 Forge Pkwy., Franklin, 65,000 s/f; Soapstone Networks, Computer Software, 1 Federal St., Billerica, 60,000 s/f; AMAG Pharmaceuticals, Pharmaceuticals, 100 Hayden Ave., Lexington, 55,900 s/f; Philips Medical Systems, Medical Supplies & Devices, 200 Minuteman Dr., Andover, 52,000 s/f;

* Most of the new development is concentrated in the Rtes. 128/Mass. Pike and Northwest submarkets which have had historically good leasing success. Given the age and obsolescence of some of the existing supply, the extent to which these new projects will yield positive absorption versus simply relocation within the market remains to be seen.

* Pre-leasing at selected new projects under construction is depicted below:

TRENDS

* The number of competitive options available to tenants - both new and existing - along with general economic uncertainty is likely to dampen any further significant rental rate increases through the end of 2008.

* Tenants will continue to seek value alternatives. Both Class A and Class B landlords are more motivated than ever to secure tenants rather than lose them to competitive buildings or other submarkets.

* Further speculative development has been placed on hold for the time being in light of the cost of construction and the current economic environment.

* Access to public transportation is becoming more important to tenants looking at properties.

