The Boston suburban office market will need patience and perseverance for 2009

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The Boston suburban office market totals 84.6 million s/f with a combined availability rate of 19.8% halfway through the 4th quarter of 2008. Sublease space only accounts for 3.2% (2.7 million s/f) of the total available space. The music has stopped and after 15 consecutive quarters of positive absorption the suburban office market will experience negative absorption. The overall average asking rent for Class A space along central Rte. 128 is $37.50 per s/f gross. Rents for Class A space in the Natick/Framingham market are averaging $27.75 per s/f gross while the average asking rent for Class A space along central I-495 is $21 per s/f.

The U.S. economy is going through some very uncertain times with the credit crisis affecting 90% of the financial institutions, upcoming presidential election, consumer confidence slipping, and the high cost of consumer products. Nonetheless, history has proven Mass. businesses have conditioned themselves much better for an economic slowdown than other sectors of the country. If you research the commercial real estate market one will find the fundamentals are in check. The Boston suburban market experienced limited new construction and currently has only a couple "spec" office buildings in the pipeline such as First Colony Development's 100,000 s/f building at 100 Crowley Dr. in Marlborough, Cummings Properties 63,000 s/f at 144 North Rd. in Sudbury, 107,000 s/f at 10 Corporate Dr. in Burlington and Hobbs Brook Management's 215,000 s/f at 175 Wyman St. in Waltham. During this last cycle, companies exhibited remarkable constraint and refrained from leasing excess space. Furthermore, there was true demand for space unlike the previous dot.com era.

Economic uncertainty and the slower commercial real estate market will create opportunities for some tenants with leases expiring in the next 12 to 18 months. These tenants would be wise to discuss their options with their landlords and start reviewing the market. Landlords are preparing themselves for the slowdown and being proactive as well as creative in their effort to secure and retain tenants. Free rent, larger tenant improvement packages, moving allowances and lower security deposits are concessions that will continue to be prevalent. Landlords are clearly focused on retaining tenants and maintaining occupancy levels.

According to Michael Woolfolk, senior currency strategist at the Bank of New York Mellon he believes "While a rebound in U.S. real estate market may be as long as two years away, the good news is that the speed of recovery from global capital markets are already materializing. However, the recovery in the U.S. real estate market is expected to follow a different trajectory than that seen in Japan and Hong Kong over the past ten years. Painful write downs and balance sheet rebuilding on behalf of the U.S. corporations and households set the stage for a vigorous recovery fed by population growth and strong immigration trends. The irrational pessimism of today's financial markets is expected to give way to renewed U.S. prosperity in two years time buttressed by strong stock market performance and a strong dollar."

Looking ahead to 2009 we expect to see flat growth, vacancy rates to rise while absorption continues slightly negative, downward pressure on rental rates, and additional sublease space to hit the market. However, we will not approach the slowdown we experienced in the early 1990s or even in the tech wreck of 2000.

In summary, there is no hiding the challenges that confront the suburban office market. However, as we move through the remainder of 2008 and into 2009 we strongly believe that commercial real estate will hold up well relative to other asset classes. Market fundamentals are strong, with most landlords well capitalized and not over-leveraged. In addition we have not been in the direct path of the financial crisis (especially investment banking) as in other states such as New York or California. There are a number of business sectors in Mass. still producing solid financial results. As a result, we still forecast moderate leasing activity in 2009 but expect an inordinate amount of lease commitments will be delayed or postponed. Patience and perseverance will be a necessity going forward.

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