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Jones Lang LaSalle' 2008 Cambridge commercial real estate market report

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The fundamentals of the Cambridge market are stable, which belie the broader economic conditions that are affecting the country. The technology and life science sectors, long the life blood here, remain steady. This has helped prevent the dramatic fall off we experienced in 2001.

Cambridge is on better footing this time around for three main reasons. First, the root of this recession is in the financial services sector and not the tech industry. Second, many Cambridge companies adjusted their real estate strategy after the downturn of 2001. This time they are taking a more conservative approach, and therefor aren't acquiring additional space in anticipation of future growth. Third, the level of new construction is substantially less than it was in the years leading up to the dot com burst.

The Cambridge office and lab markets continue to be sustained by small to mid-sized lease transactions. Availability and vacancy rates dipped slightly in Q3 of 2008, as the market had its second consecutive quarter of positive net absorption bringing the year-to-date figure to 126,770 s/f.

This positive absorption is due to several small to mid-size transactions in the 3,000 to 15,000 s/f range, as well as the removal of a few blocks of sublease space. The Exeter Group expanded into 15,000 s/f that it had previously marketed for sublease at 1 Canal Park, and Novartis leased 60,000 s/f of sublease space from Millennium Pharmaceuticals at 45 Sidney St.

Currently the amount of sublease space in Cambridge stands at 339,520 s/f, which is 13.8% of total available space. The largest blocks of available contiguous sublease space include 49,390 s/f at 64 Sidney St., 29,055 s/f at 88 Sidney St., and 26,000 s/f at 515 Mass. Ave.

In comparison, 548,006 s/f of sublease space (47.4% of total available space) was available in the first quarter of 2001. By year-end 2001, sublease space in Cambridge had more than doubled to 1.2 million s/f (42.8% of total available space). Sublease space may increase over the next few quarters as Cambridge tenants react to the downturn. However, the lack of new construction should keep availability and vacancy rates in check.

Average asking rents for office space have declined by just 3% to $45.71 per s/f gross, the first drop since 2004. The average asking rent for lab space remained steady for the third consecutive quarter at $53.80 per s/f NNN.

Between 1999 and 2002, the Cambridge market gained 3.9 million s/f of newly constructed space. In contrast, only 1.3 million s/f will deliver between 2006 and 2009, none of which is office space.

On a percentage basis, the contrast in new supply is even more telling. Between 1999 and 2002, additional construction increased overall supply by 33.6%, compared to this cycle which is expected to record a 7.5% increase in supply by the fourth quarter of 2009.

These factors indicate that market conditions may soften but vacancy rates will not rise significantly. Tenants may gain some relief from landlords that have increased rent over the past few years in response to tight market conditions. Companies may also look to sublease space as a way of lowering occupancy costs.

Even if the volume of sublease space ticks downward over the next year, the lack of new supply being delivered to the market will keep conditions relatively tight.

Jones Lang LaSalle's research group contributed to this story.

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