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The Diamond Group's 2008 Cambridge retail market report

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The Cambridge retail market consists of 2 major markets Harvard Sq. and Central Sq. each unique in their own way plus 5 sub markets, Inman, Porter, Kendall, Lechmere and Fresh Pond. Even during these bad economic times Cambridge retail leasing is as strong as it has ever been. Why is this? The answer is MIT at one end of the city and Harvard University at the other end. There are over 25,000 students and 10,000 employees at Harvard and an additional 10,000 students and 5,000 employees at MIT. Adding to this local customer base are millions of tourists attracted to this vibrant city, 8 million to Harvard Sq. and 3.5 million to the MIT area.

Harvard Sq. is one of the strongest and most consistent retail markets in the greater Boston area. Harvard Sq. embodies both an urban environment and the likes of many new suburban Lifestyle centers. The Sq. combines academia with small boutique style shopping, ethnically diverse dining, cultural venues and local history to round out a total experience. Harvard Sq. has one of the largest concentrations of bookstores in the world, 19 at last count. Of the 350 businesses in the square 280 are occupied by locally owned independents with the balance occupied by regional and national chains.

The Harvard Sq. business district consists of 964,300 s/f of space with only a 2.4% vacancy factor. Of the existing vacant space, half should be leased by the end of the first quarter of 2009. Harvard Sq. seems to run in 20 year vacancy turnover cycles; in 2008 about 20% of the retail space was vacated and released. The most interesting thing to happen in the past year is a number of buildings in Harvard Sq., owned by old family trusts since the 1900s have been sold. Sales figures for these properties have averaged between \$900 and \$1,000 per s/f, some of the highest figures in the greater Boston area. Retail leasing rates have remained consistent averaging \$85 with some locations commanding as much as \$140 per s/f.

Since 1913 when the first underground rapid transit subway in the United States was constructed linking Boston to Central Sq., mixed use development (first floor retail and office residential on upper floors) has flourished in Central Sq. During the Depression and World War II growth in Central Sq. was stagnant. However, just after the War the district quickly became a vibrant shopping district again, dotted with many regional and national retailers. In the late 1950s and into the 1960s with construction of the regional suburban malls, a number of businesses in Central Sq. closed. Since that time the area has evolved again into a thriving eclectic retail area of small to midsized retail shops, restaurants and a mecca of evening entertainment nightclubs. Of the 220,000 s/f of retail and restaurant space about 90% is occupied. Rental rates are holding strong averaging in the \$35 s/f

range.

Kendall Sq. immediately around the T stop at MIT has a limited amount of retail space creating a never ending demand from retailers. Average rental rates are in the mid \$40s. Although the vacancy rate in the T stop area is less than 1%, just a few blocks away to the east and south a few thousand s/f of existing and new retail space has been built and most remains unoccupied. The two areas are Tech Sq. and at the newly created area on Third St. where hundreds of recently built residential units and office and retail space has just been completed.

Porter Sq. and the immediate Mass. Ave. corridor have a vacancy rate of just 1% with rents averaging between \$25-\$55 per s/f. With this stable and densely populated area retailers in Porter Sq. cater mostly to local residents in Cambridge and Somerville.

Inman Sq. like Porter Sq. has less than 1% vacancy, rents averaging \$25-\$35 per s/f and catering to local shoppers. Helping to keep Inman Sq. desirable to retailers is its famous food and entertainment establishments, such as Ryles, East Coast Grill and the S&S Deli which attract patrons from far beyond the local area.

The Lechmere area is dominated by the Galleria Mall the area's largest regional urban enclosed shopping mall. Small retail buildings along First St. adjacent to the Mall are some of the best rental deals in the city averaging \$18 per s/f.

Fresh Pond shopping is at the end of the Red Line at the Alewife stop, which attracts thousands of Boston bound commuters daily. Shopping in Fresh Pond has evolved in the past 12 to 15 years from a group of small older strip centers to a regional shopping area. It all started about 10 years ago when Bread & Circus (now Whole Foods Market) opened one of its first expansion stores. Next came Staples followed by a few other national tenants and then Jasper White opening his first Summer Shack restaurant. The area's only multi screen theater was completely refurbished attracting even more consumers. Rents went from the low teens to the high twenties and stayed level until a few years ago when they started to creep into the \$30 range.

During the past few years market rate luxury apartments and condos have been built. With the recent purchase of one of the strip centers by Linear Retail Properties and the remodel of that property, which will include a new CVS stand alone, the rents in the area should rise to the mid \$40s with some spaces leasing for as much as \$65.

Despite dire predictions about the future of the world in general and real estate in particular the Cambridge retail real estate market continues to remain strong with low vacancies and stable rents.

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