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Western Mass. Market Overview: Region provides growth and development

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As in many areas of the country, western Massachusetts has suffered a downturn in the commercial real estate business. Ever increasing fuel prices, freight and utilities costs are taking their toll on the region's economics and financial condition discouraging growth opportunities and potential for new business and the stabilization of current business.

Rising unemployment, and the more recent impact of issues affecting the banking and financial services sector have caused many companies to reevaluate their long-term space requirements prior to making any long term commitments.

Western Massachusetts is home to more than 35,000 businesses; nearly 30,000 of these have less than 100 employees while more than 500 have workforces ranging from 100 to 10,000 employees. Year-to-date statistics do support that the population is growing. Some of the top employers in the area like Baystate Health, the University of Massachusetts, Mass Mutual Life Insurance and Mercy Medical Center and Sisters of Providence Health System have remained stable and continue to expand their workforce despite other smaller company layoffs and downsizing.

The city of Springfield is at a pivotal point in determining its future. It has an opportunity to overcome past troubles, a \$40 million budget deficit that required state assistance, and it can now realize its potential as the region's urban and cultural center. Safety has been a long lingering problem and although statistics show a decline in crime, the perception of safety needs to change in order to attract people to the area. Review of crime statistics reveals that Springfield's crime rates are at the low end when compared to cities of comparable size.

On a positive note, our region did provide growth and development this year. In March, the Rivers Landing complex opened in the former Basketball Hall of Fame on the Riverfront, featuring a 60,000 s/f LA Fitness Center and Onyx Restaurant & Fusion Bar. This complex represents over \$15 million worth of private investment with no public subsidies. In May, Stop & Shop opened a new \$4 million supermarket at the intersection of Cooley & Allen Sts. in Springfield. The new store in the Sixteen Acres neighborhood features 64,000 s/f of supermarket space with 8,000 s/f additional tenant space. The 80,000 s/f New England Medical Center development located at the former Van Norman property in the city's Memorial Square neighborhood has been completed to serve the medical office needs of independent physicians and medical laboratories in the Pioneer Valley. In June, Excavators cleared 7.2 acres of land in the Westover Airpark West commercial parks for two industrial buildings totaling 72,000 s/f.

Westmass Area Development Corporation is proposing a \$200-\$300 million project to redevelop the former Ludlow Manufacturing Associates mill. When redevelopment is complete, the 170-acre site could host between 2,000 and 2,500 jobs. In September, Springfield officials announced plans to spend \$60 million to redevelop Union Station, which has been vacant for about 35 years.

Springfield's Democratic U.S. Rep. Richard Neal says the initiative will turn the old terminal into a vibrant and dynamic destination for people traveling throughout western Massachusetts.

Despite a decrease in commercial sales, NAI Samuel D. Plotkin & Associates managed to stay steady and close several large deals this year. The average commercial buildings sold for \$35 - \$48 per s/f.

On a regional level, the office market was stagnant in 2008, with tenants relocating within the market. Although lease rates declined through mid-year, they are now showing signs of stabilizing at \$15 per s/f - gross. We believe rents declined as a result of an increase in landlord concessions and overall softening of the market. The current office vacancy rate is 10% to 12%, which is consistent with 2007 rates. One Financial Plaza, located at 1350 Main St. in Springfield, is a Class A office building with lease rates of \$15 per s/f - gross. Compared to other Class A office space located in the downtown business district, these rates are average, with the highest being \$22 per s/f - gross.

The industrial market vacancy rate decreased slightly from 10% to 9% and the average asking rent decreased slightly to \$4 per s/f - triple net. In highest demand are high bay warehouses to service distribution centers throughout the region. Triple net rates requested by owners and landlords on average have been \$3 to \$3.50 per s/f. Excellent highway access and competitive lease rates continue to make the region attractive to industrial users, however, many businesses are apprehensive to make any move, as they wait to see if the credit problems, rising fuel costs, and overall conditions change for the better.

Investment opportunities have declined compared to recent years, as investors from other regions are dealing with a stagnant economy and other issues. At one time, the approach was "if you market it, developers will come," however, this approach is no longer appropriate for western Mass. Additionally, demographic shifts and marketing changes are making available buildings and land parcels not as desirable as they once were.

First we expect the average asking rents in all property types to show statistical decline by the end of this year, and vacancies to continue to rise through at least the first two quarters of 2009. We see a lot of stability and growth in the western Mass area, as business leaders are again taking hold and discussing new projects and investments. The strategies set forth are a series of interrelated ideas and initiatives that establish a framework to better position the region to achieve its full economic potential. Working with the EDA, Economic Development Assistance, city and state officials, and area businesses, we are confident that the commercial real estate market will move ahead in a positive direction in 2009.

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