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## Grubb & Ellis Company's Office Market Trends Third Quarter 2008

December 11, 2008 - Spotlights

According to Grubb & Ellis Company's Office Market Trends Third Quarter 2008, the suburban office market finished the third quarter with a net positive 1,083,210 s/f of absorption. The Inner-South submarkets produced the largest gain with 537,866 s/f of tenancy growth. Contributing to this absorption was the opening of the 703,000 s/f Center for Life Science Boston Building. Beth Israel Deaconess and Dana-Farber Cancer Institute collectively leased 530,000 s/f in this building. Cambridge gained 242,000 s/f of new absorption primarily due to the completion of 301 Binney St. Ironwood Pharmaceuticals occupied 120,000 s/f at this location. The Rte. 495 submarket posted a better than average quarter and reported absorption of 241,167 s/f as vacancy dipped to 20.5%, a 90 basis point drop from mid-year. Asking rents in the suburbs remained stable throughout all submarkets, with the exception of increases in the Cambridge Lab market.

The suburban lab market recorded a strong quarter. In Cambridge, Ironwood began occupancy in the newly completed 301 Binney St. lab facility. Cambridge Lab asking rents increased \$4.18 in the quarter to \$55.75 per s/f NNN. However, vacancy also increased 390 basis points to 15.2%, due to new supply at 301 Binney St.

In Cambridge, the office market picked up a moderate 57,380 s/f of new tenancy. Vacancy dropped for the third straight quarter by 60 basis points to 8.5%. The office market is healthy, with landlords securing new technology tenants from outside the market, as well as locking up existing tenancy to long-term renewals. The largest Cambridge deal of the quarter was Acceleron Pharma's decision to renew and expand into 75,000 s/f of space at 128 and 149 Sidney St. Another tenant that renewed and expanded in Cambridge was Cambridge Interactive Development Corporation which recently moved from 100 Cambridgepark Dr. to 150 Cambridgepark Dr. and increased their presence to 54,000 s/f. Class A asking rents leveled off after last quarter's surge and dropped \$1.08 to \$51.28 per s/f.

The Rte. 128/95 market recorded a strong quarter with a positive absorption of 208,034 s/f and Class A asking rents declining \$0.19 to \$28.55 per s/f. Class A asking rents in the Mass Pike Rte. 128/95 submarket dropped to \$31.56 per s/f, still the highest suburban rate outside of Cambridge. Constant Contact was recently exploring a 140,000 s/f requirement, but decided to renew and expand at 1601 Trapelo Rd. in Waltham. Biogen IDEC is said to be nearing a lease for 300,000 s/f at 133 Boston Post Rd. on Rte. 20 in Weston. The vacant lot is currently owned by Boston Properties. In the northwest market, Class A asking rents were flat at \$28.83 and vacancy increased 200 basis points to 17.1%. Epsilon was also touring the market for a 120,000 s/f requirement before deciding to renew at Edgewater Office Park in Wakefield. Activity in the Rte. 128/95 market continues to be healthy.

The Rte. 495 market posted a positive quarter with 241,167 s/f of tenancy. Vacancy in this market

has dropped to 20.5%, with average Class A asking rents holding steady at \$20.96 per s/f. Bradford College's leasing of 62,000 s/f at 320 South Main St. in Haverhill was a leading factor behind this absorption.

#### Forecast

The Greater Boston office market is still healthy despite the looming effects of the credit crisis. Although no one knows what the final impact of the credit crisis will be, Boston has the essential fundamentals to tolerate the results. Although financial institutions have a large presence here, Boston will not be directly affected as harshly as other markets due to the strength and continued growth in other industries.

Biotech and high tech markets are thriving in Massachusetts and will continue to drive an increasing portion of the local economy. Examples include the Siemens Healthcare Diagnostics plan for a \$109 million expansion in Walpole. Covidien, previously part of Tyco, is seeking to redevelop a 100,000 s/f building in the South 128 market for its new research and development facility. Novartis AG and Genzyme opened their new research and development facilities in Cambridge and Framingham, respectively. In the high tech industry, Oracle is considering doubling the size of its footprint by adding an additional 150,000 s/f to its existing 170,000 s/f campus in Burlington. Microsoft opened its first East Coast research and development laboratory in Cambridge at One Memorial Dr.

Even with the current growth in the marketplace, Boston faces challenges with the downturn in the economy. Rents are starting to soften and flatten out as vacancy rates begin to rise. As vacancy rates increase, landlord retention of tenants will become critical. Landlords will start to compete on price; even if asking prices remain unchanged. The net effective rent will be brought down through tenant concessions, such as free rent and increased tenant improvement allowances or other concessions. Rents will most likely follow the market psychology down whereas in the past three years, landlords were able to set the rent requirements.

Tenants will have more leverage immediately and they will start to see the market change in their favor. This scenario has not been the case for the past few years, but due to the softening demand, landlords will aggressively move to retain their tenants. Tenants with good credit and those willing to sign long term leases will certainly see more attractive deals. Tenants with poor credit will likely find the rising cost of moving an obstacle to relocate. All tenants will be wary of their real estate expenses.