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Colliers Meredith & Grew's Third Quarter Market Viewpoint Report

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According to Colliers Meredith & Grew's Third Quarter Market Viewpoint Report, despite a barrage of negative commentary with respect to the national financial crisis and ongoing economic meltdown, conditions in the suburban Boston commercial real estate markets are mixed. The vacancy rate was flat for the first half of 2008, then increased slightly during the third quarter from 17.2% to 17.8%.

Given its above average incomes and the strength of its institutional sector, metropolitan Boston is insulated somewhat from the severe decline in employment being reported in other areas of the country. Preliminary employment numbers indicate a modest decline in non-government jobs since June, but an increase from August 2007 to August 2008 of 18,700 (not seasonally adjusted). The primary contributors to the increase are professional and business services (9,400 jobs) and education and health services (8,400 jobs).

Supply and Demand

After a few years of relatively limited new construction, a number of projects are under consideration or have recently come online. Approximately 1.4 million s/f of new office construction was added to the suburban supply through the first nine months of 2008, with an additional half million s/f expected to come online during the fourth quarter.

One project that came online during the third quarter was Cummings Properties' 300 Sylvan Rd., Woburn. The 377,000 s/f office building is 24% leased

An early indicator of a downturn in the commercial real estate market is the addition of sublease space to the market. Sublease availability increased from 2.7 to 3.2 million s/f, but is substantially below the 11.8 million s/f recorded at the end of 2002.

Absorption and Vacancy

The third quarter statistics are unremarkable in most respects, with moderate positive absorption in one submarket offset by negative absorption in the next. Over 700,000 s/f was absorbed through the end of September, compared to 4.5 million s/f during all of 2007.

The Rte. 495 submarkets report a combined vacancy rate of 22.4%, still a significant performance gap compared to the Rte. 128 submarkets at 15.6%.

Office Rental Rates

While suburban asking rents over the past 12 months have been generally flat to negative in many submarkets, the weighted average rent for office space, including both Class A and Class B properties, actually increased from \$22.63 per s/f to \$23.77 per s/f from September 2007 to September 2008. This is due to the greater availability of new construction and more expensive space in the Inner Suburbs and Rte. 128/Mass Pike submarkets.

Weighted average rents fluctuate depending upon building age, location and amenities - nearly half

of the current suburban supply was built in the 1980s. Office rents range from a low of \$18 per s/f in the Rte. 495 North submarket to \$30.25 per s/f in the Rte. 28/Mass Pike submarket. Nonetheless, with comparable rates in Cambridge and Boston of \$43.67 per s/f and \$50.49 per s/f, respectively, the suburbs do provide an alternative to tenants seeking value, larger blocks of availability - often in a campus setting, and free parking.

Trends

While there has not been a significant deterioration in rental rates, landlords are more incented to secure tenants in the face of economic uncertainty. Concessions such as free rent and moving allowances will be more prevalent over the next 12 to 18 months.

Tenants are taking longer in evaluating their options; many are hesitant to transact if they have the ability to postpone their decisions.

All further speculative development has been placed on hold for the time being in light of the cost of construction and current difficulties in the credit markets.

Given the "mixed signals" of a slightly increased vacancy rate, moderate positive absorption and certain submarkets performing better than others, the impact of the federal government's rescue plan will likely not be recognized until the latter half of 2009.

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