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## **An overview of the south suburban office and industrial markets heading into the 4th quarter**

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Heading into the 4th quarter of 2007, the south suburban office and industrial markets continue to be strong with increasing lease rates and lower vacancy rates when compared to one year ago.

The Rte. 128 south office market from Quincy/Braintree to Westwood consists of approximately 14.4 million s/f. There is currently a 12.4% vacancy rate which is down from 17% at this time last year. As a result, lease rates for class A and class B space have increased. Rents in Quincy/Braintree and the towns bordering Rte. 128 are in the mid \$20s per s/f averaging a 12% increase from a year ago. Rents along Rte. 3 south, including Hingham, Norwell and Rockland are in the low \$20s per s/f, slightly higher than a year ago. Typical leases include a specific tenant improvement allowance of \$20-\$25 per s/f in the above rents. Turnkey buildouts are becoming more infrequent as landlords are reluctant to commit to firm construction prices, causing tenants to exercise some control over their spending. Rent concessions are also on the decline as tenant activity and rental rates improve. Free rent, if offered, is limited to one month for most five year deals.

One year ago, I reported that within the south/128 market there were ten buildings which could accommodate a 50,000 s/f requirement and four which could handle a 100,000 s/f requirement. Today, those figures are five and three.

Year-to-date, we have seen strong leasing activity in all categories of office space. These include numerous, larger lease signings including properties such as Granite Woods Corporate Center which secured Travelers Insurance Co. (40,000 s/f), Oriental Motors, Top Source and Henry Sohein totaling 28,000 s/f. Additionally, M.I.B., Inc. has leased 37,000 s/f at 50 Braintree Hill Office Park. Haemonetics renewed its lease at 355 Wood Rd., Braintree for 43,708 s/f and Quincy College and BT Conferencing, Inc. both signed leases at 150 Newport Ave., Quincy, for 49,000 s/f and 71,713 s/f respectively. Smaller tenant activity, more typical of this market, has also been strong. Recent leasing activity at the newly renovated 600 Accord Park in Norwell includes Columbus IT Partner 3,959 s/f, Athletes' Performance 9,378 s/f, Carlton Bates 2,796 s/f, Verint 6,398 s/f, Viant 4,476 s/f and First One Financial 9,318 s/f.

New construction along Rte. 128 south has been limited. The most notable project is 30 Braintree Hill Office Park. This 160,000 s/f speculative office building is being developed by the Flatley Company. This 4-story building is scheduled for completion in the spring of 2008. Lease rates will be in the high \$20s per s/f.

Also of note is the 350,000 s/f build-to-suit building recently completed for Blue Cross Blue Shield of Mass. This corporate headquarters facility is located in Rockland just off Rte. 3 and was developed by A. W. Perry. This project represents a trend of larger companies moving further south. The primary reason for this is access to the South Shore's strong, educated labor force. Large tenants looking for 200,000 s/f+ with high parking ratios and large floor plates have beyond the limited

supply bordering Rte. 128.

The industrial markets south of Boston are also doing quite well. Totalling 53 million s/f, it is the region's largest industrial market. Vacancy rates along Rte. 128 south are at 9.5% and 12.3% along I-495 south. Market activity continues to be moderate but steady. The continuing shift in Mass. from the need for manufacturing buildings to more modern distribution facilities continues to be an issue for many South Shore industrial buildings. Most of the South Shore industrial parks, particularly along Rte. 128 were built in the 1960s. At this time, manufacturing companies required 18-20 ft. ceilings. Most of these buildings continue to lease up given their preferred locations but they are not ideal. Most industrial users today are looking for higher stud height for racking and distribution. 25-30 ft. clear height, expandable facilities, better quality lighting and sprinkler systems are now desired. Without taking into consideration these limiting factors, for companies in the market for 25,000-99,000 s/f, there are currently 16 options. For companies looking for 100,000 s/f or more, there are 12 options. This has led to a continued demand for build-to-suit projects and speculative development. With very little land available within the I-495 belt, sites have commanded premium pricing.

Recent industrial/flex lease transactions include a 90,000 s/f lease with FedEx Ground and an 80,000 s/f lease with SWB New England at One Unite Dr., W. Bridgewater. At 26 Mulberry St. in Brockton, JDA Enterprises leased 66,500 s/f and Millenium Records Management has leased 43,128 s/f at 145 Constitution Blvd., Taunton. Rental rates for industrial buildings vary. The older, lower clear height buildings mentioned above, lease for \$5-6.50 per s/f, NNN. The newer, high-bay distribution facilities are averaging \$6-7.50 per s/f NNN.

The sale of industrial/flex buildings also continues to be strong. We are still finding most users in the market asking the questions, "Should I purchase or lease my next building?" Many are purchasing if they can find a building. Alternatively, many building owners who are not typically sellers, will consider a sale if it helps fill the space.

The sale prices, as with lease rates, vary significantly depending on location and the building's physical attributes. Older, lower clear height buildings are selling in the \$62-68 per s/f range, and the newer high-bay buildings are achieving \$85-105 per s/f.

75 Landquist Dr., Braintree, 78,389 s/f was purchased by Herb Chambers for \$37.62 per s/f. This is an unusually low price, however, the building has very low 16 ft. ceilings. 5 Dan Rd., Canton Commerce Center, 100,884 s/f sold for \$62.45 per s/f. 110 Shawmut Rd., Shawmut Park in Canton, sold for \$95.71 per s/f. 1000 Cordwainer Dr., Norwell, 43,026 s/f, sold for \$105 per s/f and 55 Sharp St., Hingham, 17,259 s/f sold for \$107.40 per s/f.

Upcoming vacancies that are sure to impact the market include 30 Braintree Hill Office Park which contains 160,000 s/f of first-class office space; Tech Center Dr. in Stoughton, the former Reebok distribution facility, 330,000 s/f, will become available and 2 Granite Ave., Milton, will be vacated by State St. Corp. adding 100,000 s/f of office space to the available market.

Overall, with demand increasing, lease rates rising, and the limited supply of new construction, I believe these upcoming vacancies will be well received. The South Shore continues to present excellent space alternatives to companies of all sizes and types. We are looking forward to a busy year end.

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