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Grubb & Ellis predicts increased vacancy will swing market in favor of tenants and buyers

January 28, 2009 - Spotlights

Grubb & Ellis Co., a leading real estate services and investment firm, released its national and local 2009 Real Estate Forecast reports. For the Boston market, the report indicates that further corporate consolidations and a resulting influx of new vacant direct and sublease space will lead to reduced rental and purchase rates and a market favoring tenants and buyers. Boston's talent pool and dominance in the life sciences and technology industries will offset much of the fallout of the national economic crisis, however, leaving the real estate market stable overall.

"The Boston area has experienced steady growth over the last few years, and unfortunately, the national economic crisis is halting some of that growth, bringing rent and sale prices back down as space is given back to the market. The good news is that Boston has the best talent pool for growing industries such as life sciences and technology, meaning we'll fare well compared to other markets. For companies in a position to relocate or expand, there are some bargains out there and more coming as landlords adjust.

The metropolitan Boston office market, which has seen healthy absorption levels and steadily rising rental rates over the past few years, will experience a contraction in 2009 as consolidating companies give space back to the market. Well-capitalized landlords will be able to offer tenant improvement dollars and moving allowances, providing excellent options for tenants with good credit and the flexibility to relocate. Regardless, it will be difficult for landlords to start a game of musical chairs as companies wait out the market and sign short-term renewals until the future becomes clearer.

Boston's industrial market is comprised mostly of specialized, growing companies in life sciences and high-tech manufacturing that can't easily relocate elsewhere to lower costs. Although these sectors will feel the effects of the national recession, causing downward pressure on rents, life sciences and high-tech manufacturing offer less risk to the Boston industrial market than low-tech manufacturing tenants.

Retailers across the board, from large national chains to local restaurants and specialty shops, are curbing expansion plans and closing locations.

Many landlords will continue to struggle as the gap widens between their proformas and current market conditions, and tenants will increasingly be squeezed by higher taxes, operating expenses and insurance costs.

The implosion of the housing industry will also play out in the retail market - developments relying on increased residential building, such as those in the outer Boston suburbs, will be hit hard, as will furniture, home goods and home improvement retailers.

On the development side, most large-scale development projects lacking significant preleasing will be put on hold with the exception of well-financed projects in excellent locations.

Smaller, well-placed developments that are largely preleased however will proceed.

The national credit freeze has affected the Boston real estate investment market, putting downward pressure on pricing greatly, upward pressure on cap rates and requiring much more equity than in recent years.

With no thaw in the credit markets expected in the near future, sellers are favoring quality and stability, choosing individual low-risk properties over large portfolios and are targeting growing industries such as medical office. Distressed assets will be most popular with well-capitalized bargain hunters who don't need credit tenants to assure financing. Owners unable to make their proformas in the weakening economy may contribute to higher commercial foreclosure rates.

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