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Rent growth continues in the first half of 2007 for the Boston suburban office market

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The Boston suburban office market totals 78.6 million s/f with a combined availability rate of 18.8% halfway through 2007. The market continues to show signs of strong activity with eight consecutive quarters of rent growth. Year to date, we have experienced over 500,000 s/f of net absorption which has been occurring at a steady rate for the last two years. Even the I-495 north submarket is starting to show signs of positive absorption. We are starting to see rent conscious companies exploring options in this I-495 north submarket.

The Natick/Framingham submarket remains the strongest area with a combined availability of 9.2%. The “ground zero” central 128 submarket continues to be the area of extreme interest with the availability rate of 13.8%, and rental rates now achieving \$42-45 per s/f for class A properties and \$28-\$32 per s/f for class B properties.

The I-495 west submarket continues to show signs of slow

improvement as the availability rate declined to 23.5% compared to 18 months ago at 28.8%. Many of the deals that were signed in the Southborough and Westborough market can be contributed to the lack of options and increased pricing in the Natick and Framingham area, which shall be a continuing trend through 2007.

One of the many challenges for tenants in Boston and the suburbs is the spike in asking rents coming from the new “out of town owners” like Normandy and The Blackstone Group. As part of Blackstone’s acquisition of equity office, they inherited such assets as Wellesley Office Park where rents are being pushed to \$47 per s/f. Typically, precipitous rental increases are the result of overwhelming demand for space. Now, it is the “out of town owners” rather than demand pushing rents. So far, this strategy has prevailed as absorption increases and vacancy rates decline. However, it will be interesting to see how this phenomenon plays out over the coming years.

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In the last 12 months, rent concession packages for class A properties have been removed from the negotiating table compared to class B properties. The price differential in class A buildings and class B buildings are continuing to widen in most submarkets.

Several years ago we experienced the “flight to quality” with tenants in class B properties moving into class A buildings (in the same town) without increasing their base rent. Now, there is a “flight to adjacent towns” as companies in class A buildings are relocating 5-10 miles to less pricey submarkets in order to maintain their rent for A space. A good example of this trend is taking place in Waltham and Wellesley. Rather than downgrade to class B space many tenants are looking at Burlington to the north, Needham/Dedham to the south, and Natick/Framingham to the west. Needless to say, these submarkets are starting to reap the benefits.

Another interesting trend is the number of companies in Boston and Cambridge considering the suburbs. When Biogen relocated some

of their operations to Wellesley it appeared to be an anomaly. With the relocation of Color Kinetics and Aspen Technology along with several other requirements looking in the suburbs, the spike in downtown rents will continue to induce companies to seriously consider Rte. 128. Clearly, the companies from Boston and Cambridge that relocate to the suburbs will not be as price sensitive.

For the balance of 2007, investor activity in the suburbs will remain quite strong. The recent increase in interest rates will impact the sale of certain assets. However, since we expect rental rates to continue to increase and the vacancy rates to decline by another 150 basis points this year, sales activity will remain brisk. Local investors/developers are quickly being replaced by institutional owners—such is the price of prosperity.

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