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2004 statistics confirm that the Boston suburban office market is starting to rebound

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After “bouncing along the bottom” year end 2004 statistics confirmed that the Boston Suburban office market is starting to rebound. The suburban office market (which totals 76.5 million s/f) as a whole posted positive net absorption with most of the submarkets experiencing positive numbers. In addition, sublease space previously accounted for approximately 1/3 of the total availability and that number has decreased to 20%. As a result, sublease space is no longer a major factor in placing downward pressure on rental rates. True “plug and play” options are minimal with most of the sublease terms now under two years.

Looking ahead, of utmost concern is the jobless recovery we continue to experience. However, according to Arthur Margon with the New York based Rosen Consulting Group, keynote speaker at last month’s NAIOP/SIOR real estate re-

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view, economic prospects for Massachusetts are good and will help buoy the commercial real estate market. “While concurring that the region has not been hitting on any of its multiple business cylinders to begin the new millennium, Margon maintained that the bay state has the educational, scientific and financial backbone to remain competitive in an emerging global environment”. “I don’t believe for a minute that technology and telecom are dead as job generators... and Boston will benefit from that,” Margon Said.

One of the more pervasive trends continues to be the appetite from owner/users to acquire real estate. Barlow Research surveyed small businesses in the 3rd quarter of 2004 and found that 27 % of respondents with sales of \$100,000 to \$10 million held commercial mortgages. A large percentage of the office sales transacted in the suburbs during 2004 involved a

corporate user. More importantly a couple of the largest sales were transacted by owner/users (Boston Scientific - Fairbanks Blvd. in Marlborough, The MathWorks - Two and Three Apple Hill in Natick, and Waters Corp. - 5 Technology Dr. in Milford). We are witnessing new development in the suburbs for industrial condominiums. It will be interesting to see if some of the existing office buildings are converted to condominiums to meet the demand of small to midsize businesses that otherwise could not afford larger properties.

Clearly, the Boston suburban office market is making progress with the combined vacancy rate declining from 28.5% to 26.3% during 2004. To put things in perspective, though, a tenant looking for 10,000 s/f of office space in Waltham has 76 spaces to choose from in 34 buildings. Likewise, in Westborough along I-495 a 10,000 s/f tenant has 34 spaces in 20 buildings. With 20,119,000 s/f of office space available, over 12,400,000 s/f of space has to be absorbed in order for the suburbs to reach 10% availability (equilibrium). Historically,

the suburbs have absorbed on average approximately 1.8 million s/f per year. Needless to say, it would be very ambitious to expect any significant appreciation in rental rates over the next 18 months.

For 2005 we expect the following for the suburban office market:

- Larger tenant improvement allowances
 - Free rent will remain, and actually increase in class B & C properties
 - 10% rent appreciation for class A properties in most of the submarkets (direct result of the flight to quality)
 - Increased investor interest as fundamentals continue to improve
 - Modest decline in vacancy rates of 3% as we continue to experience positive absorption
- 2004 proved to be the turnaround year for the suburban office market. Going forward, it will be a slow and steady up hill battle to reach “equilibrium”.

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