

Real Estate Journal

THE LARGEST BUSINESS PUBLICATION OF ITS KIND IN THE NATION

The path to recovery: Patience and perseverance will be a necessity in the suburban office market

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The Boston suburban office market totals 76.5 million s/f with a combined vacancy rate of 27.1% halfway through 2004. After 22 years of negative net absorption (4.7 million s/f of negative net absorption in 2001 alone), the suburbs finally posted 4 quarters of positive net absorption totaling in excess of 2 million s/f.

Since the end of 2000, combined vacancy rates for the suburbs have increased from 5.7% to 27.1% while the average rent has decreased from \$41 per s/f to \$20.25 per s/f. The combined vacancy rate has now surpassed the record high vacancy of 1992. With a total of 20,731,500 s/f available, we are now faced with the formidable task of absorbing 13,000,000 s/f in order to reach 10% availability which would be considered

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“equilibrium”. Historically, the suburbs have absorbed about 1.8 million s/f per year. Needless to say, it would be quite ambitious to expect any appreciation in rental rates over the next year.

Landlords are no longer sitting on the sidelines and are being much more proactive and creative in their effort to secure and retain tenants. Free rent, larger tenant improvement allowances, moving allowances, and lower security deposits are concessions that will continue to be prevalent for the next 12 months. Landlords are clearly focused on improving tenant relations and maintaining occupancy levels.

The Route 128 Central Market (Waltham and surrounding towns) is regarded as “ground zero” and the most sought after location.

Over the past year, the total availability in this submarket decreased from 27% to 23.8%. The Natick/Framingham submarket continues to be the healthiest posting total availability at 10.2%. Although the total availability for the Route 495/Mass Pike submarket remains pretty high at 32.3%, this area was the beneficiary of over 700,000 s/f of positive absorption due to the Boston Scientific and Cyty deals. The highest availability remains in the 495 North market at 33.5%.

As for the positive news, tenant activity in the market has increased with showings expected to improve further after the Summer. Corporations are no longer flooding the market with excess space, while most of the low priced sublease options have been absorbed. This phenomenon coupled with the fact that the majority of sublease options remaining have less than two years of term, is easing the downward pressure on rental rates. In addition, there are a number of start-up firms that are looking for

space. With rents so low and short-term lease options it is a very attractive environment for new companies. Although these start-up firms are only leasing small spaces, their new technology will be the impetus to significant positive absorption in years ahead.

In summary, there is no hiding the challenges that confront the suburban office market. However, as we move through the remainder of 2004 and into 2005 there are early signs of economic recovery and we are optimistic about improved job growth, stronger corporate earnings, and momentum in the stock market which will propel us toward a healthy recovery. Although the suburban office market finally bottomed out – patience and perseverance will be a necessity going forward.

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