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Rising Tide Lifting the Better Boats for Suburban Boston Office Landlords

By Joe Clements

WALTHAM—Suburban office buildings still face a prolonged convalescence from the economic malaise that has ravaged landlords nationally, but after spending nearly two years flat on their backs, that constituency is finally moving towards a recovery at the local level, according to industry experts spoken to this week.

"There's a bit of lift in the market, no question," reports Grubb & Ellis principal Jack Kerrigan. "You feel it, you hear it, you see it getting stronger everyday." The veteran broker sounds substantially more upbeat than he did during a 2010 forecast last December when he fretted the difficulties could linger into next year. But for various reasons, the pace quickened noticeably in the second quarter, says Kerrigan, whose own firm just negotiated a quintet of deals filling nearly 40,000 sf at the Waltham Watch Factory on behalf of Berkeley Investments. "People are willing to commit or make an expansion decision much more quickly now," Kerrigan says. "We see the market going up, not down."

Mid-year data compiled by Grubb & Ellis researchers seem to support at least an easing of the woes prevalent for suburban Boston landlords. Five of nine submarkets surveyed by G&E indicated positive net absorption through two quarters, a slight yet rare majority compared to past quarters dating to late 2008. Richard Barry Joyce & Partners divvies its survey into seven submarkets, of which six finished positive during the second quarter. Comparatively, the survey showed all but one submarket finishing in the red during the past 12 months.

As with Kerrigan, RBJ broker James Lipscomb offers an improving assessment from street level. "The activity has definitely picked up," says Lipscomb. "Tenants are feeling more comfortable in their business plans and that is showing up in some new requirements and lease signings."

Kerrigan and Richards Barry Joyce & Partners VP of Research Brendan Carroll both say the core markets will prove the strongest over time, although a surge of new construction has kept vacancy rates unusually high in such communities as Waltham and Wellesley. RBJ estimates negative net absorption of 644,000 in the Route 128 Central submarket of 21.8 million sf since June 2009, including a 57,000-sf decline in Q2. Grubb & Ellis puts the Q2 net absorption for that submarket at minus 137,000 sf for the 6.6 million sf it tracks in that submarket.

Those numbers might indicate a long road ahead, but Kerrigan says the flight-to-quality trend that favors core locations is taking hold, and the pipeline of speculative construction has been sealed enough to foresee a dearth of space in the near term. For tenants, Kerrigan says, "the window is shutting," with 2010 a prescient time to take advantage of the still-favorable situation.

Carroll agrees, and cites a special RBJ review of office space completed throughout Greater Boston between 1994 and 2006 that indicates a scant vacancy rate of 1.9 percent for that select inventory. That block of about 6,5 million sf is benefitting from tenants preferring modern buildings, he says, and has been so well received there have been rare instances of asking rents actually going up for the most coveted business addresses. The survey did not include the newest properties because many are in their natural lease-up stage, explains Carroll, whose main conclusion is that higher-end properties in circulation are faring well, offering hopes for a quick rebound in Route 128 Central.

Kerrigan voices a similar outlook. Even though Grubb & Ellis indicates some of the hardest hit submarkets have shown gains of late, including a 123,000-sf boost in net absorption for Interstate 495 West through mid-year, Kerrigan says there remains too much product for rents to improve noticeably in fringe outposts. Buildings with stable sponsors and solid fundamentals might fare well, he says, but overall tertiary communities "face a real tough comeback," he says. "It's a perfect storm for vacancy," he says of the difficult conditions including marginal product and weak job activity.

Indeed, new age companies needing to attract a skilled workforce often view real estate as a recruiting tool, and Kerrigan says that is helping spark the quality consciousness. "We clearly are seeing a recovery in the stronger markets," he says.

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