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THE LARGEST BUSINESS PUBLICATION OF ITS KIND IN THE NATION

By Garry Holmes, SIOR and Craig Johnston, R.W. Holmes Realty As we move through remainder of year and into 2004 there are early signs of recovery

The Boston suburban office market totals 76.5 million s/f with a combined vacancy rate of 28.2% half-way through 2003. The suburbs have experienced 10 consecutive quarters of negative net absorption with just over one million s/f added over the first two quarters of 2003. The statistic is alarming, but the suburbs were the recipient of 4.7 million s/f of negative net absorption in 2001, and fortunately the volume of "give backs" should be marginal for the balance of the year.

Since the end of 2000, combined vacancy rates for the suburbs have increased from 5.7% to 28.2% while the average rent has decreased from \$41 per s/f to \$22.25 per s/f. The combined vacancy rate has now surpassed the record high vacancy of 1992. With a total of 21,573,000 s/f available, we are now faced with the formidable task of absorb-



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ing 13,923,000 s/f in order to reach 10% availability which would be considered "equilibrium". Historically, the suburbs have absorbed about 1.7 million s/f per year. Needless to say, it would be quite ambitious to expect any appreciation in rental rates before 1995. 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, lower security deposits, and furniture are some of the current concessions. Landlords are clearly focused on improving tenant relations and maintaining oc-

cupancy levels. As for the positives, 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 low priced sublease options are being absorbed. 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.

Interestingly, Kodiak Venture Partners, Ironside Ventures, Flagship Ventures and General Catalyst Ventures all announced plans to raise new venture capital funds. Of greater significance is the fact that the economy grew at a

modest 1.4% and generated the strongest growth in office employment in 2 years. As we all know, the strength of the real estate business is interdependent on job creation.

In summary, there is no hiding the dismal statistics that confront the suburban office market. However, as we move through the remainder of 2003 and into 2004 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. The Suburban Office Market will reach the bottom by the end of 2003 - patience and perseverance will be a necessity going forward.

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