

REGIONAL REPORT

Massachusetts Moves Ahead

"It is widely anticipated that greater Boston will help lead the nation out of the current economic slowdown," says Laura M. Mintz, CCIM, CPM.

For centuries, Massachusetts has provided the country with a series of cultural and industrial innovations. The first American public secondary school was founded in Boston in 1635, and the first American university, Harvard, was established in Cambridge (then Newtowne) the next year. Cambridge also was home to the first printing press in the United States. In 1826, the first American railroad was built in Quincy, a small town south of Boston. Alexander Graham Bell demonstrated the first telephone in Boston in 1876, and 16 years later, Charles and Frank Duryea perfected the first successful gasoline-powered automobile in Springfield, which also is the birthplace of basketball. In the 20th century, Vannevar Bush developed the first computer at Massachusetts Institute of Technology, and Howard Aiken developed the first automatic digital computer at Harvard.

The legacy of these innovations and numerous others, coupled with highly regarded universities and a diverse, educated workforce, help Massachusetts navigate through rough economic waters. "Boston, as an education center and intellectual hub, has underlying strength in diverse industries including high technology, life sciences, defense, health care, and business and financial services," says Laura M. Mintz, CCIM, CPM, of Cushman & Wakefield of Massachusetts. "It is widely anticipated that greater Boston will help lead the nation out of the current economic slowdown."

Industrial Reigns

"The industrial sector is the strongest of all [property markets] right now," in Boston, says Debra Lee Stevens, CCIM, of GVA Thompson Doyle Hennessey & Everest in Boston. "High-technology [space] is quiet but alive — same for warehouse/distribution — however, biotech and laboratory use is still booming." Vacancy rates have hovered around 6.8 percent for the

past year. Although lease rates have fallen from a high of \$7.73 per square foot triple net in 2000, they still remain a healthy \$6.75 psf triple net and are expected to stay steady.

Since land costs are high around Boston, very little industrial space is being built other than some development in the Interstate 495 area, Stevens says. "Due to the shortage of space, we expect to see the market remain strong for industrial," she concludes.

Active Retail

Boston is experiencing "significant retail activity with primary concentrations in multi-anchored regional malls and grocery-anchored shopping centers," Mintz says. "All types of retail products are in demand. However, there are very few properties available for sale at any given time. For those products that are available, prices are generally stable and rates of return have not shown any significant change over the past few years."

Due to construction limitations, retail vacancy rates in Boston have remained unchanged during the past few years and now stand around 5 percent for well-located and established properties, Mintz says. Lease rates range from more than \$100 psf triple net per year in high-traffic central business district areas such as Back Bay to \$15 psf triple net per year outside the city. However, "with such a vast and diverse retail inventory it is impossible to [easily] categorize anchor and in-line rents in the rest of the city," Mintz explains.

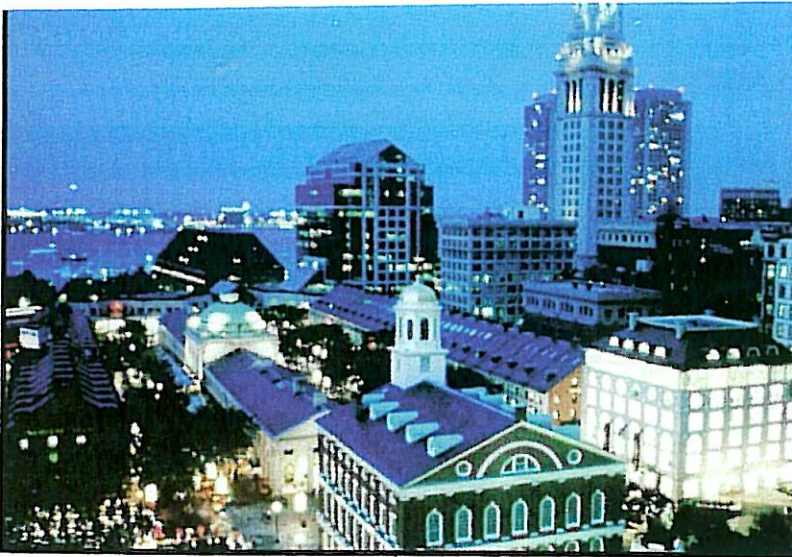
In the near future, "lack of overbuilding and stable demographics will keep the retail market in equilibrium, meaning that the redevelopment of older centers is more likely as they near the end of their economic lives," Mintz predicts.

Steady Multifamily

Western Massachusetts "has the strong, varied economic base necessary to support demand



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Faneuil Hall Marketplace offers more than 50 shops, 14 full-service restaurants, and 40 food stalls in the heart of downtown Boston.

in the rental market," says Mark A. Berezin, CCIM, CPM, of Infinity Real Estate Group in Holyoke. Also, "situated at the crossroads of New England, [the region] provides convenient access for business and pleasure to all of the Northeast. There are also 10 colleges and universities nearby."

Multifamily occupancy rates around Springfield, the third-largest city in Massachusetts, hold steady around 97 percent, Berezin says. Typical lease rates range from \$1 psf to \$1.30 psf per month.

"There has been a slowly but steadily increasing level of activity occurring within a 15-mile radius of Springfield," Berezin says. Sales transactions typically are for 30-unit to 150-unit properties, and prices average between \$20 psf and \$30

psf. Little multifamily construction is occurring, and "sales prices and rents on existing properties will have to increase before new construction becomes economically feasible," he says.

In the future, Berezin predicts the multifamily market in western Massachusetts will remain strong. "I expect that the fastest-growing segment will be supplying a quality product to the middle-income consumer in the 18-to-29-year age bracket," he concludes.

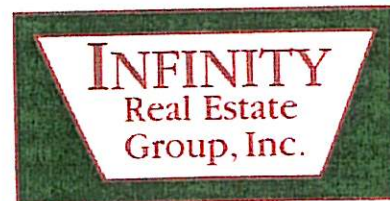
Stagnant Office

Since its peak in fourth-quarter 2000, the Boston office market has suffered a drastic slowdown. Depending on the submarket, occupancies average between 80 percent and 90 percent, "significantly down from 95 percent to 99 percent only 18 months ago," reports Douglas Jacoby, CCIM, MAI, of Grubb & Ellis. The market also has experienced steep rent declines; annual class A rates now range from \$20 psf to \$28 psf in the suburbs to \$45 psf to \$65 psf downtown. Due to these conditions, landlords are offering more rent concessions and deals for credit tenants, he says.

Despite the gloomy outlook, Jacoby expects the office market to rebound in the next 12 to 18 months. Although sales have slowed considerably, "true class A space downtown still trades for large numbers due to buyers' long-term views," he says. He believes that limited available land and the city's diversified employment base will help the market recover in the coming years.

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