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TALE OF TWO SECTORS AS ECONOMY LAGS

A look at mid year statistics reveals that the Home Sales Market Sector is experiencing the predicted (by some) double dip while the rest of the real estate market shows signs of improvement. All of this while the economy shows slow and incremental improvements. Clearly, the end of the Great Recession has not arrived for many.

The Massachusetts Association of Realtors reports that prices rose by one-half percent but sales volume is off 20% when compared to the same period one year ago. The Case-Schiller S & P Home Price Index reports that, in their 20-city composite, the index was +.7%, however, after seasonally adjusted, the index dropped .1%. Boston, one of seven cities to see a decline, is -1% March 2011 versus April 2011 and down 4% from April 2010. The Federal Income Tax Credit last spring has clearly had an impact. Because this most affected the lower priced range, a return to the more typical price distribution of sales may also be a factor.

Taken together, these reports are not great news for the Home Sales Market Sector. The probable result is that this market will not see significant recovery for another 12-24 months.

The non-home sale markets are showing signs of progress, although these signs are somewhat dependent on the property type and location. The panelists at the recent NAIOP/SIOR mid-year forecast reported many positive signs.

The Class A apartment market continues at a near record pace – some would say at "bubble" levels. This is a bright spot in the investment market characterized by substantial competition for properties brought to market and cap rates in the 4½ to 5% range.

The Cambridge market, especially East Cambridge, continues to see strong deal activity with moves in and moves out – Biogen and Vertex being two of the larger events this spring. Net absorption has slowed in the face of $37 office rents and $55 lab rents. It will be interesting to see if these rent levels result in a resumption of the development pipeline. Availability levels of 12.6% for office and 17.5% for lab space are still somewhat high.

The Boston office market is also improving. The high rise vacancy is 6.5% (13.4% availability) and the low rise vacancy is 11.7% (18.9% availability). With average asking rents of $49/$42 gross, there is still some distance to go.

The suburban office market lags somewhat. Investment sales are occurring in the $30-$60 price range. However, with vacancies of 16.7% in the suburban Route 128 market and 21% and rising in the west Rte. 495 market, there are still many concerns. In particular, the vacating of several large campus properties, i.e. Fidelity's Marlborough property. The near term future remains uncertain.

The hangover from the 2008/2009 meltdown still haunts much of the market. Bright spots are visible and with improvement in economic fundamentals, especially job growth, there appears to be light ahead.

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