Nordlund Associates

Q4 2024
END OF YEAR EDITION

NORDLUND NEWSLETTER

Commercial Real Estate Report

ABOUT NORDLUND

Nordlund Associates, Inc. is a full service commercial real estate brokerage firm serving tenants, landlords and investors by facilitating the acquisition and/or divestiture of properties through traditional and innovative strategies.

KEY STATS

Greater Boston Office Market

Inventory – 372 million SF
Availability – 18.5%

North Shore Office Market

Inventory – 16.1 million SF
Availability – 9.7%

Cambridge & Boston Office Market

Inventory – 138 million SF
Availability – 20.8%

OFFICE TENANT REP IN HISTORY

The Greater Boston Office Market has not tanked? This is a common question we hear from new and past clients alike. The collective belief is that our lease is coming up in the near term, we will be looking at a reduced rental rate/sf, right? We can see why they would think so and find it hard not to empathize.

In March of 2020 the Covid-19 pandemic hit, and we all left the office and worked from home. At that time, it sure felt like a more cataclysmic shift than the dot.bomb burst of 2000 and the financial crisis of 2007 which both triggered sharp rises in vacancies and drops in rents. In fact, now, almost four years later, office availabilities are at all-time highs, higher than those two peaks and yet, Asking Rents have not fallen.

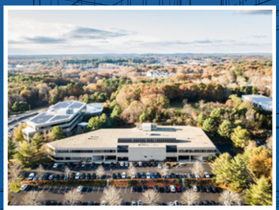
Before delving further into the Greater Boston Office Market, it is worth noting that tertiary markets such as the North Shore, where much of this readership is domiciled, have not experienced the wide swings that the entire market and especially, more core submarkets have. For example, over the past 25 years in the North Shore Office Market, Average Asking Rents have ranged from a low of $17.87/sf to a high of $25 (vacancies from 4.2% to 15.2%). In the Greater Boston Office Market these #'s are $24.11 to $43.11 (3.3% to 13.9%). To make it more pronounced, just looking at Cambridge and Boston, the #s are $30.77 to $63.30 (1.2% to 15.9%). The reasoning is simple, tertiary markets are smaller and the business that are there, want to be there. Tertiary markets will continue to be insulated unless things get bad, really bad.

Now, why have rents not fallen across the Greater Boston Office Market? The answers are multifaceted, and it sure feels like the market is being propped up.

During this last long (2010-2020 and beyond?) cycle run up, there was a lot of new money and Landlords to the market. Interest rates and cap rates were low, it seemed building ownership changed more often than tenants. Most were focused on the core submarkets where rents were rapidly rising (live/work/play was the mantra). Some owners looked to corner and control submarkets. A prime example being BPX (formerly Boston Properties) in trophy assets in Waltham and Back Bay (they own the Prudential Center and, the former John Hancock building). There are many more examples.

NORDLUND FEATURED LISTINGS

380 Boston Street, Topsfield
For Lease



99 Rosewood Drive, Danvers
For Lease

138 River Road, Andover
For Lease

NORDLUND ASSOCIATES

Q4 2024

END OF YEAR EDITION

NORDLUND NEWSLETTER

Commercial Real Estate Report

CLIENT CORNER

“I had the pleasure of working with Kevin Olson and Rick Bartley on several recent commercial real estate transactions.

I can't speak highly enough about the team at Nordlund Associates. They have all the qualities that one would hope for in working with a real estate brokerage:

- In depth knowledge of their service area
- Expertise negotiating not only price but important terms
- Patience, thoroughness, and a relentless desire to secure the best possible deal for their client

Do not hesitate to contact Kevin and the team at Nordlund--you'll be glad you did!”

Dan Boufford
CEO

OFFICE TENANT REP IN HISTORY

During the pandemic, Life Sciences (think Moderna) and Distribution (think Amazon) propped the office market up. Well located buildings that could be, were converted for life science use. Speculative life science development in the core submarkets took off. The industrial market went gang busters, new developments abounded, and some less well-located office buildings were slated for demolition and replacement. Post pandemic, hybrid work has become a recruitment tool, and businesses cannot wait for their leases to expire so that they can stop paying for so much empty office space. The Life Sciences industry slows down/experiences a correction turning that segment of real estate demand upside down. TAMI companies slow to reduce hiring (tech employment fell 4.2% year-over-year). And yet, Asking Rents have not fallen.

Another more-to-date thought was that, with the risen mortgage rates and a plethora of commercial loans maturing (over a trillion $ in loans over the next year nationally), the wave of foreclosures has yet to happen. A new catchphrase amongst lenders is “extend and pretend”. There are some conversions happening (to residential and hotel) but, these are by investors that are cleaning up on foreclosures in Boston in bottom-tier office buildings, and the inventory reduction is less than that of the recent Life Science conversion. Many blame the high cost of construction (tenant improvements) and Landlord’s inability to finance them as the reason many tenants are renewing in place.Realistically, the Future of the Office is still unclear to most in the C Suite and the pain of the pandemic is further in the rearview, making a renewal in place an easier judgment.

There are cracks. We are at all-time highs in vacancies and availabilities in the Greater Boston Office Market. The core submarkets (think Cambridge, Boston, Route 128 West and Northwest – the live/work/play submarkets), the ones that led the long run up, are on edge. East Cambridge is experiencing all time high availabilities; only trophy assets in Boston (new development) are experiencing rent growth, Class B buildings are headed in a different direction; speculative developments from Waltham to Bulington are sitting vacant. A growing, historically high disparity between Asking Rates and Net Effective Rates (less free rent and other concessions) is being reported. And still, Asking Rents have not fallen.

Will they? Only hindsight will be 100%. Our advice for clients navigating such an environment is to drive the market, not ride it. Plan, plan, plan. Have a solid plan in place before engaging the market. Engage with multiple options that can best accommodate the plan. Don’t make the decision until it needs to be made. In this way, the business will ensure the best possible economic terms and ultimately, the best decision moving forward. Drive the market, don’t ride it.

Please reach out to explore how we can help your business to drive the market.

JAYSON RHUDA

Nordlund Associates

Q4 2024
END OF YEAR EDITION

NORDLUND NEWSLETTER

Our Team at a Glance

Christopher Everest
President/Founder
ceverest@nordlundassociates.com

Kevin Olson
Partner/CEO
kolson@nordlundassociates.com

Anthony Triglione
Vice President
atriglione@nordlundassociates.com

Jayson Rhuda
Vice President
jrhuda@nordlundassociates.com

Rick Bartley
Senior Associate
rbartley@nordlundassociates.com

Brenden McCarthy
Assistant Vice President
bmccarthy@nordlundassociates.com

John Wellington
Senior Associate
wellington@nordlundassociates.com

Brian Triglione
Associate
btriglione@nordlundassociates.com

Liam Jacobs
Marketing Coordinator
ljacobs@nordlundassociates.com

RECENT TRANSACTIONS


LEASED

85 Eastern Ave,
Gloucester, MA


SOLD

138 River Road,
Andover, MA


LEASED

99 Rosewood Drive
Danvers, MA


LEASED

199 Rosewood Drive,
Danvers, MA


LEASED

8 Essex Center Drive,
Peabody, MA


LEASED

20 Speen Street,
Framingham, MA

Follow Nordlund!