

Boston Business Journal

March 20, 2008

The suburban discount: Landlords get aggressive as fewer tenants eye open spaces

For a limited time only, Dennis Clarke is offering tenants at TradeCenter 128 a 30 percent discount on rents.

Clarke, whose company Cummings Properties LLC owns the 400,000-square-foot office building overlooking Route 128 in Woburn, is among a once-bullish pack of real estate developers and owners who are feeling the bottom fall out of the commercial market. It's a reversal from several years of soaring rents and large tenants roaming for space with few options.

Landlords are now dropping rents, spending extra money to customize tenant offices and are luring real estate brokers with higher commissions. For the past several months Clarke has been offering tenants that lease office space at TradeCenter 128 rents as low as \$24 per square foot or a savings of about \$10 per square foot. The temporary offer has yielded 60,000 square feet of leases.

TradeCenter 128 is emblematic of a market cycle gone bad. Cummings Properties, as well as many other suburban developers, had bet that demand for office space would increase and moved forward with massive development projects. Cummings began construction on TradeCenter 128 in January 2007, and by the summer of 2008, TradeCenter 128 was substantially underway as the economy headed into a tailspin. The glass and steel property, topped with American flags, is currently 52 percent vacant.

"There was some uncertainty but we didn't envision the economic problems that have materialized," Clarke said. "We had no premonition of that."

Clarke is not the only landlord employing aggressive tactics to get tenants in the door.

At 175 Wyman St. in Waltham, **Hobbs Brook Management LLC** is building a 336,000-square-foot corporate campus. So far, there have been no leases signed for the property, which could be finished as early as December.

"It would be totally untrue if I said the market is anything but soft," said **Donald Oldmixon**, a vice president at Hobbs Brook. "We have a lot of tire kickers ... there's not a lot of people who have pulled triggers."

Suburban vacancy is expected to continue to rise until the first quarter of 2010, said Mark Roth of Cushman & Wakefield of Massachusetts Inc. Roth said the 128 West market, which includes Waltham, stands at 14 percent vacant but by the first quarter of 2010 that number could rise to 19 percent. The 128 North market, which includes Burlington, Bedford and Woburn, is 22 percent vacant. Roth expects that market will be 23 percent vacant by next year.

While Oldmixon hasn't dropped his \$40 per-square-foot asking rent, he has increased the amount of free rent he is offering prospective tenants. He's also willing to pay more to build out the tenant space and considering offering brokers higher commissions for bringing him a deal.

"The brokers control the tenants and we need to make sure we see all the deals that are out there," Oldmixon said.

At Network Drive at Northwest Park in Burlington, there is nearly 250,000 square feet of vacant office space available for lease. The owner, Nordblom Co. and Nordic Properties Inc., dropped rents since buying the 800,000-square-foot property from Sun Microsystems in 2007.

Sun Microsystems occupies about 450,000 square feet of space.

Two years ago Nordblom was asking tenants to pay \$33 per square foot. Today the landlord is signing deals just under \$30 per square foot and offering free rent, said Dan Cordeau, an executive vice president at Jones Lang LaSalle, which is leasing the property.

Just last week, a 47,000-square-foot lease was signed with e-Dialogue, which will relocate its offices from Lexington.

"I think everybody who bought a property in 2007 has had to adjust their expectations," Cordeau said. "You can either make less on your building or change your lease expectations."

Rents have come down across the board for new and existing suburban office space as tenants hedge their bets and wait for the market to fall further, said Kerry Olson, a vice president at CB Richard Ellis/New England. Olson is the leasing broker for the 107,000-square-foot Burlington Centre, which will open this summer. Olson said tenant activity has increased in the last three to four weeks, but there are no signed leases for the property. Asking rents for new office space in Burlington, which

average in the low \$30s per square foot, have dropped by 10 percent since November, said Olson.

Olson said tenants are looking for flexibility that new construction doesn't offer.

Tell that the Ann Goggin. Three years ago Goggin bought the former Sylvania light factory in Danvers from Applied Materials Inc., which sold the building after abandoning plans to move its headquarters there. Goggin expects it will be another year and a half before the 280,000-square-foot, three-building office property at 75 Sylvan St. is fully leased.

Goggin dropped rents by \$1 per square foot to between \$17.50 and \$18.50 per square foot. Her efforts yielded two tenants in January. She's also taken on extra capital to help pay operating costs for the property which she said is "pretty much at break even."

"These are somewhat extraordinary times," said Goggin, who is the president of real estate company Goggin Co. in Portland, Maine.

All contents of this site © American City Business Journals Inc. All rights reserved.
