

# BANKER & TRADESMAN

## Hub's High Rises Having Problems Filling Low-Rise Space

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Midyear office occupancy statistics show a yawning chasm opening up between Boston's two core commercial neighborhoods, the Financial District and the Back Bay. Downtown office tenants continue to shed space, while the Back Bay's buildings are filling up quickly.

Within the two neighborhoods, though, there's a more subtle divide developing: Premium space is being priced at a premium again, and everything else is lagging behind.

"The market is like a train leaving the station," said Bill Motley, a managing director at Jones Lang LaSalle. "If high-rise space is the engine, with signs of recovery and a bit of growth, the caboose is still standing at the station, and it's not moving. Low-rise space is still very challenged."

### A Matter Of Timing?

Back Bay vacancy rates fell in the second quarter to 10 percent, from 13 percent in the first quarter, according to data from Colliers Meredith & Grew. That stands in sharp contrast to the Financial District, which saw vacancies climb to 18.4 percent quarter-to-quarter from 16.1 percent.

"This is the first time we've seen that kind of gap," said Mary Sullivan Kelly, senior vice president of research at Colliers Meredith & Grew. "Historically, the two have tracked very closely together."

In fact, Colliers Meredith & Grew said, the 1.4 million square feet of occupied space the Financial District has lost so far this year has already eclipsed the 1.2 million square feet it shed in all of 2009.

Kelly said part of the disparity between the numbers in the two neighborhoods has to do with timing: The Back Bay is a smaller market, so when a significant deal closes, like Bain Capital's new lease at the John Hancock Tower, the numbers jump more than they do downtown.

"This doesn't signal the Back Bay's triumph over the Financial District," argued Brendan Carroll, vice president of research at Richards Barry Joyce & Partners (RBJ). "We're really seeing the concentration of vacancies in Class B Financial

District space, and in Class A commodity space. When you get into higher-rise space in the Financial District, it's firming up."

"We're heading into a segmented market, where pockets of submarkets will see real rent growth, and others will be flat," added Glenn Verrette, a partner at FHO Partners. "There's a fair amount of supply in the Financial District below the 15th floor, but once you get above fifteen, there's more demand on the view space, and less of it available."

Colliers Meredith & Grew data shows huge chunks of the Financial District's vacancy concentrated in Class B office buildings, which have a 27 percent vacancy rate, and in the lower portions of Class A towers. Vacancies under the 20th floor in downtown towers account for 31 percent of all vacancies, both Class A and Class B, in the Financial District and Back Bay. The 2.2 million square feet of vacant low-rise space represents 51 percent of all Boston tower vacancies, 61 percent of all vacancies in Financial District towers and 53 percent of all Class A Financial District vacancies.

By contrast, low-rise tower space in the Back Bay accounts for only 7 percent of all vacancies in the two neighborhoods, while high-rise space in the Back Bay makes up just 3 percent.

### **All Over The Map**

Speaking at a recent NAIOP Massachusetts conference, Michael Joyce, co-founder of RBJ, predicted a rebound in Boston's high-rise space. He said a shortage of space in the Back Bay's towers – there are only four blocks of space bigger than 50,000 square feet in the neighborhood, compared to 16 in the Financial District – could lead to dramatic jumps in rental rates that would spread throughout the city.

"If you want high-rise space, you're going to have to pay for it," Joyce said. "There could be a lack of availability throughout the high-rise market."

Multiple brokers told Banker & Tradesman Boston's biggest landlord, Equity Office Properties (EOP), is already beginning to push upward on rents in its view spaces. Ameriprise Financial is leaving One Financial Center for 100,000 square feet of Fish & Richardson's former space atop EOP's building at 225 Franklin St., leaving Equity with just one building, 100 High St., with big blocks of vacant view space. The Chiofaro Co.'s One International Place and Brookfield Properties' 75 State St. are also marketing significant blocks of vacant tower space downtown.

"In general, there's a feeling that velocity is up, and there's more willingness from tenants to move, but the numbers didn't show what we all feel, that things have bottomed and we're heading in the right direction," said Michael Edward, head of brokerage at Lincoln Property Co. "I was hoping the numbers would give us a

more clear picture, but there isn't a clear picture. The numbers are all over the map."