

BOSTON BUSINESS JOURNAL

Real Estate Quarterly

State of flux: Will Boston's tight Back Bay lead to Financial District rebound?

By Mike Hoban, Special to the Journal

Date: Friday, October 21, 2011

Numbers do not lie.

And with the vacancy rate for the once grand Financial District three times that of the Back Bay, the headliner addresses in the Boston office submarkets now read Boylston and Huntington instead of Federal and Congress, while the downtown landlords struggle to fill space in the lower portions of the glistening towers.

“The vacancy rates between the Financial District and the Back Bay are the greatest we’ve ever seen,” said Ron Perry, president of Colliers International. “The opportunities are now in the Financial District.”

The Back Bay surpassed the Financial District as Boston’s address of choice in the fourth quarter of 2009, according to Colliers International data, and the gap between the two submarkets has widened steadily. At the close of 2011 third quarter, the percentage of direct available Class A office space was 5.8 percent, while the Financial District stood at 19.8 percent, according to Cassidy Turley FHO data. Average asking rents for the same property type are \$53.30 to 47.97 respectively, according to Richards Barry Joyce and Partners research.

“The Financial District is now cheaper than the Back Bay, which is an historical first,” said **Joe Sciolla, Managing Principal at CresaPartners**. “The Back Bay has always trailed the downtown by probably 10 to 12 percent in terms of rent rates, and now that has flipped the other way.”

So with the scarcity of quality space in the Back Bay, particularly for tenants with large space requirements (100,000 square feet or more) wouldn’t companies be flocking to the Financial District to take advantage of potential deals?

“They haven’t gotten any bump from it yet,” said **Sciolla**, who added that the near benefit to the Financial District is that with those options closed off, landlords hope it will keep tenants in that submarket and raise the absorption rate over time.

The Financial District has seen a marginal gain in year-to-date absorption of 11,355 square feet, compared with gains of 211,422 square feet for Back Bay and 232,577

square feet in the Seaport District. Glen Verrette, partner at Cassidy Turley FHO, said it will take a little bit of time and creativity to fill that amount of available supply, noting that the Financial District contains nearly 2.5 times the amount of rentable square feet (29.2 million versus 12.2).

Verrette noted the migration of tenants coming from out of market or from the suburbs to the city, particularly in the technology, advertising, and legal sectors. Some examples: Brightcove, a provider of cloud content services, came from 30,000 square feet in Cambridge into 80,000 square feet at Atlantic Wharf; Communispace Inc., an online community provider, came in from Watertown, also into 80,000 square feet at Atlantic Wharf; and international law firm Jones Day opened a Boston office in 35,000 square feet at 100 High St.

Dave Martel, executive director at Cushman & Wakefield, said that although tenants know the economy is rocky, they are now “willing, ready and able to make deals.”

“People see that the window of opportunity in the marketplace is not going to last, to continue to be this low, and they know that there is no new supply that’s going to be added to this market for the next five years,” said Martel.