



EMERGING FROM THE SHADOWS...

Slowly but surely, the economy is showing signs of improvement. The commercial real estate industry seems to be emerging from a transitional phase into a recovery stage. Even though lending remains tentative and unemployment is still high, there are number of signs that suggest commercial real estate markets are on the mend. Unlike residential real estate, commercial real estate typically follows general economic indicators and grows because of economic growth.

On January 25, 2011, the Massachusetts Executive Office of Labor and Workforce Development released information stating that the December seasonally unadjusted unemployment rate statewide fell from 8.1 percent in November to 8.0 percent in December 2010, which is lower than the national average of 9.8%. The unemployment report also stated that the Leominster-Fitchburg-Gardner area has had the largest rate of growth in the Commonwealth over this past year. Fortunately, the Central Massachusetts area is faring better, most likely because of the diverse business market, which includes medical, financial, retail, manufacturing and high tech.

However, the market is still soft and recovery will be slow largely due to the abundant amount of "shadow space" available. Shadow space is leased but empty office space, cubicles, or entire floors left vacant during the recession, which is a direct correlation to company downsizing. Now that the market appears to be taking a turn for the better, shadow space is starting to fill up, and in most places, the available space will have to be occupied before the company decides to acquire additional space.

Chief Economist with Grubb & Ellis, Bob Bach predicts that about one-third of all net new demand in 2011 and about one-fourth in 2012, a scenario that will not be accounted for in the published statistics. "Add to that the still-tepid rate of hiring, and it seems that the current embryonic recovery in the office market will struggle to keep up with prior recovery cycles," says Bach.

That being said, the office leasing market is going in the right direction; the economist also states, "In a normal recovery, the vacancy rate would fall by about two percentage points per year. In 2011 and 2012, the rate of decline is expected to be about one percentage point per year, hence a half-speed recovery."

On the positive side, corporate profits and cash reserves are higher and small-business confidence is beginning to improve. Numbers indicate that if the fourth-quarter economic momentum continues into 2011, recovery may pick up the pace.

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