



Market Watch

The Quarterly Commercial Real Estate Newsletter for Southeastern Massachusetts
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“The Constantly Changing Commercial Real Estate Market in Southeastern Massachusetts”

Presented by Rick Barnes, Commercial Broker

Welcome to the latest quarterly commercial real estate newsletter highlighting useful information for the active real estate investor in Southeastern Massachusetts. The associates at Sea Watch Realty deal only in commercial real estate. Our seven (7) brokers constantly strive to stay abreast of trends in the marketplace in order to bring our clients the most useful information with which to make decisions about their real estate investments. Whether you own a single-property or have multiple investment properties, we believe it pays to stay informed.

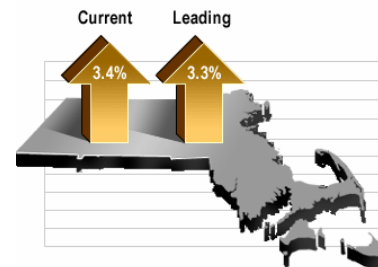
If you prefer not to receive my quarterly newsletter, please call me, or simply return this letter and I will remove you from my list.

So many words and phrases are used these days in the commercial real estate industry. Words like vacancy rates, TICs, development activity, interest rates, mergers and acquisitions – the list could go on. However, there is one thing consistent with all of these topics. They are constantly changing, thus, so is the industry itself. The real estate industry is never a constant. It is always evolving, growing and right now, it is definitely prospering.

In the following discussion, you should note that there are two sectors that are growing, evolving and prospering in the Northeast – the office and industrial markets. As has been the case for the recent past, the retail market also continues to thrive in New England as is evident in our area of southeastern Massachusetts.

Regional Economy

According to the MassBenchmarks (publication of the UMass Donahue Institute), the state’s economy expanded solidly in the third quarter, at an annual rate of 3.4%, significantly surpassing the growth of the U.S. economy of 1.6% during the same period. “This was the third straight quarter of good growth.”



It is anticipated that this growth will cool slightly over the next six months (to 3.3%) due to the effects of a decline in housing prices and its related effects on construction and consumer spending.

Investment Sales

The investment sales market in the Northeast is currently on fire. According to Real Capital Analytics, core products that were traded in the first half of 2006 produced a total dollar volume estimated at \$135 billion, a 21 percent increase over 2005. Pricing for all property types remains aggressive – a function of low cap rates as well as recovering leasing fundamentals, especially in the office market. Competition for core assets is fierce – with multiple bids for trophy properties now the norm. With market rents rebounding and vacancies declining across most submarkets, investors are anticipating income growth in near-term rollovers and are generally less concerned with vacancy risk.

Industrial Markets show strength

According to *Northeast Real Estate Business*, developers across the Northeast are seeing the demand for new office and industrial projects, especially along major distribution corridors where tenants are looking for prime space to locate their operations. They recently conducted interviews with several developers covering a variety of office projects industrial developments as well as endeavors that include elements of both. The flourishing activity in these markets proves this type of product continues to be a source of positive impact in the Northeast for the commercial real estate industry.

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The Office Market

In the office sector, the office market in the Northeast continues to improve. The overall vacancy rate for office space in the Boston area, including suburbs, has hit a four-year low at 8.2%. Analysts suggest a broad based and continuing recovery across most business sectors. Driving occupancy levels has been a steady growth in legal, financial services and professional service tenants. According to the Costar Group 3rd Quarter Office Market Report (copies available through Sea Watch), the Route 495 South Market vacancy was at 9.1% compared to 9.8% in the 1st quarter. Rental rates have risen 9% on average in the past year.

The Retail Market

Compared to all sectors, retail investment sales is the only major product type that has experienced a first half decrease in volume. That being said, there is still demand for retail properties and cap rates have still trended down compared to 2005 from 7.4% to 7.0%.

The regional shopping locations in southeastern Massachusetts are seeing signs of this prosperity. More major retail development is occurring around the North Dartmouth Mall with the addition of Target, Bed, Bath & Beyond and Michaels Arts & Crafts, as well a new bank and a restaurant. Construction should start soon on the new Wareham Crossing Shopping Center, a 700,000 square foot plaza anchored by Target and Lowes. Look for more merchants to spring up in West Wareham as a result of this new development.

The Multi-family Market

Sales of single-family homes and condos in September were 24% lower than the same month last year according to the Mass. Assoc. of Realtors. On the other hand, a recent Citigroup REIT report suggests that the multi-family sector is poised for 6% to 7% rent growth per year over the next four years. This due in part to the continued widening of the gap between the costs of owning vs. the cost of renting as a percentage of median household income. That, coupled with the “echo-boomers” entering the workforce at record numbers, but not able to afford the high cost of housing, indicates that the multi-family market continues to grow.



As we head into the New Year, we will continue to report on the status of the market in the region, bring you the owner/investor, timely information on the newest developments and viewpoints on all aspects of commercial real estate. Any one of our seven commercial real estate specialists would be glad to discuss your specific needs. We hope you will contact us if you have any questions as we round the corner into what appears to be another robust year in the constantly changing commercial real estate market in Southeastern Massachusetts.

Notable Transactions

Of significant note to real estate investors in the area is the sale earlier this year of four significant investment properties in southeastern Massachusetts that were sold by Sea Watch Realty, Inc.



Faunce Corner Executive Center I, a fully leased 49,972 square foot 2-story Class A office building in North Dartmouth was sold by Sea Watch for \$9.7 million, that is just under \$200 per square foot. The cap rate for this property was 7.7% based upon actual income at 100% occupancy.



Flex Center One, a fully leased 40,000 square foot industrial flex building in the New Bedford Business Park sold for \$3.2 million, at an 8.2% cap rate.



12 Resnik Road, a 80% leased 27,000 square foot industrial flex building located in the Plymouth Industrial Park was sold for \$2,950,000, that being an 8% cap rate on pro forma income.



107 Waterhouse Road, a 100% leased 20,000 square foot single-tenant net leased building located in Bourne was sold for \$3.5 million, that being an 7.42% cap rate on pro forma income.

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