



The Research Bureau

Downtown Worcester Office Occupancy: 2010 Survey

Report 10-08
December, 2010

INTRODUCTION

The Research Bureau is pleased to present the results of its ninth annual downtown office occupancy survey. In 2002, The Research Bureau began documenting the amount and availability of office space in Worcester's Central Business District - outlined in the map in **Figure 1** on the following page.¹

Why is this important for Worcester?

Office occupancy rates are a key indicator of a downtown area's economic vitality. This is certainly the case in Worcester, where downtown currently provides about 30% of the City's commercial tax base, and about 9% of its overall annual tax levy.²

Typically, areas with high office occupancy rates also have strong business and retail economies, while low or declining occupancy rates may signal business and retail flight and an ensuing weakening of a downtown core. For several decades, suburbs and "exurbs" have outpaced central cities in terms of both job and population growth, often to the detriment of many of our nation's once vital cores.

While this exodus continues, in more recent years, some urban areas, such as Pittsburgh, have been making a comeback. There are several projects under construction or planned in downtown Worcester, such as CitySquare, which seems to bode well for this City's fortunes as well.

Worcester's City Manager has made revitalizing Worcester's downtown a priority of his administration. In May 2008, he signed the Gateway Cities Compact for Community and Economic Development with the chief executives of ten other formerly industrial cities in Massachusetts. This document expresses a shared commitment to develop a program of incentives tailored toward the unique needs of these "Gateway Cities" that would be adopted by the state Legislature. This effort was motivated by a MassINC report which analyzed the current set of economic incentives offered by the Commonwealth and demonstrated how and why they have proved to be ineffective in revitalizing Massachusetts' struggling urban cores.³ Recently-passed economic development legislation that will benefit these cities included a clear definition of "Gateway Cities" that will be targeted for economic incentives, \$5 million in support of market-rate housing, and certain TIF (Tax Increment Financing) changes.⁴ While the original Gateway Cities legislation was not passed prior to the expiration of the legislative session in 2010, it is imperative that the Commonwealth continue to work toward the creation of a set of incentives that supports redevelopment and revitalization of urban centers beyond the existing property tax-based programs. This could make downtown

Figure 1

Central Business District



more attractive to “knowledge sector” businesses that just need office space, and for which existing tax incentives for capital improvements such as the TIF and District Improvement Financing (“DIF”) programs hold no appeal.

The most recent survey data summarized here provide a snapshot of the current economic state of downtown by reporting the total amount of office space in downtown Worcester, the proportion of that space that is currently occupied, monthly rental rates, and information about parking availability. The Research Bureau’s latest *Benchmarking Economic Development in Worcester* report (available online at www.wrrb.org) discusses several related indicators which may affect office occupancy rates, including the City’s tax base, tax rate, and employment and job growth data.

We hope that the information presented here is useful to a broad audience including current and potential property owners and managers, owners of established businesses in the City as well as businesses interested in locating here, real estate brokers, and public officials and community leaders working to attract, expand, and retain businesses in downtown Worcester.

METHODOLOGY

During the summer of 2010, Research Bureau staff gathered information from property owners, leasing agents, and

online data sources to determine the total amount of office space in Worcester’s Central Business District (CBD) and the proportion of that space that was occupied.⁵ For each of the 75 properties identified as containing some amount of office space in the CBD, the following information was collected: the total amount of office space in the building, the amount of office space that was vacant and/or available at the time of the survey, current rental rates, parking availability, and other comments about the space.⁶ Since 2002, the survey data have included owner-occupied buildings (such as 18 Chestnut Street, which is owned and fully occupied by Unum), since owner-occupied office space represents a significant proportion of total office space in downtown Worcester. Thus the data contained in this report include leased and owner-occupied office space for single- and multi-tenant properties for all classes of commercial office buildings. A detailed listing of office properties within the CBD is contained in **Appendix A**, which is also available online at www.wrrb.org.

FINDINGS

Downtown Worcester’s Central Business District contains 4.2 million square feet of office space, of which 81% was occupied as of September, 2010.^{7,8} As shown in **Table 1**, office occupancy dropped by more than six percentage points from 2008 to 2009, from 88.4% to

81.8%. From 2009 to 2010, a slight drop occurred, from 81.8% to 81.2%.

Class “A” buildings (considered “premier space,” consisting of newly constructed buildings or office space that has undergone extensive renovation) account for about 1.4 million square feet, or almost one-third, of total office space.^{9,10} While the total office occupancy rate decreased sharply between 2008 and 2009, Class A occupancy increased slightly, from 88.9% in 2008 to 90.3% in 2009. In 2010, the occupancy rate for Class A space dropped slightly from 90.3% to 88.1%. However, the rate for this space has remained fairly steady over the years. The 39 Class “B” buildings (older renovated buildings considered to be in fair to good condition) comprised almost half of downtown office space (47%), or almost 2 million square feet, of

which 75% was occupied, a slight decrease from 2009. Finally, the 840,000 square feet of Class “C” space (older unrenovated buildings offering “functional space”) had an occupancy rate of 84%, unchanged from the previous year. Class B space thus had the lowest occupancy rate by far of the three classes. This was true in 2006, 2007 and 2009 as well. (In 2005 and 2008, Class C space had the lowest occupancy rate.)

During the past five years, Downtown has lost approximately 10.6% of total office space, or about 494,000 square feet. This is most likely a result of change of use in some buildings, such as conversions to residential apartments. Another example of change in usage is the buildout of the Massachusetts College of Pharmacy and Health Sciences, which during the past several

Table 1: Occupancy Rates for Downtown Office Space, 2006-2010

		2006	2007	2008	2009	2010	Change '06-'10
Class A	Total Office Space	1,987,253	1,896,417	1,323,231	1,411,572	1,361,147	-31.5%
	Occupied Space	1,810,043	1,666,917	1,176,503	1,274,529	1,198,897	-33.8%
	Occupancy Rate	91.1%	87.9%	88.9%	90.3%	88.1%	
Class B	Total Office Space	1,667,653	2,243,490	2,480,504	2,274,064	1,950,277	16.9%
	Occupied Space	1,462,126	1,943,623	2,197,624	1,726,269	1,464,732	0.2%
	Occupancy Rate	87.7%	86.6%	88.6%	75.9%	75.1%	
Class C	Total Office Space	985,335	859,918	948,386	776,147	840,249	-14.7%
	Occupied Space	875,335	755,694	826,174	650,855	705,949	-19.4%
	Occupancy Rate	88.8%	87.9%	87.1%	83.9%	84.0%	
Total	Total Office Space	4,645,674	4,999,825	4,752,121	4,461,783	4,151,673	-10.6%
	Occupied Space	4,155,237	4,366,234	4,200,301	3,669,709	3,369,578	-18.9%
	Occupancy Rate	89.4%	87.3%	88.4%	81.8%	81.2%	

years has invested about \$85 million in buying and renovating vacant properties downtown and converting them into classroom and housing space for its Worcester campus. While MCPHS is a non-profit entity, it does pay 20% of the property taxes on buildings at the time of conversion.¹¹ In addition, the College has generated 175 jobs in downtown, with a current payroll and benefits of more than \$8.5 million, and an annual operating budget of \$17 million. Seventy percent of the 650 students live in the downtown area. (The remaining students either commute or live in the surrounding area.) Over the next few years, the College expects to increase student enrollment to 1,000 students.

How does Worcester's office space market fare compared to other areas?

As reported by Boston-based commercial real estate consultants Colliers International, the U.S. office occupancy rate was 83.7% overall by the end of the third quarter of 2010, and Central Business District markets (Downtown) nationwide had an occupancy rate of 85%.^{12,13} The report states that the data suggest the start of a long, multi-stage recovery in the office market. The occupancy rate for the downtown Boston market dropped to 83.7% by the third quarter of 2010.¹⁴ As reported by Colliers Meredith & Grew, office occupancy rates for the third

quarter of 2010 were 85.2% for Cambridge, 78.8% for the Boston suburbs, and 87.4% for Worcester (entire city).¹⁵

As shown in **Table 2**, in 2010 65% of the office buildings in the downtown area contain available vacant space. Among these, 28 buildings have vacancies of 10,000 square feet or less, eleven have between 10,001 and 25,000 square feet of available space, and ten contain more than 25,000 square feet of vacant office space. Class "B" space (older renovated buildings considered to be in fair to good condition) represents the greatest proportion of vacant space (485,500 square feet, or 62%, of vacant space downtown).

Other Data

In 2010, property owners and agents provided information on lease rates for half of the properties listed in **Appendix A**. Reported square foot lease rates for these properties ranged from \$6 per square foot to \$25 per square foot in 2010, as shown in **Table 3**.¹⁶ While rental rates remained stagnant between 2005 and 2008, there appears to have been a slight decrease in rates in 2009, and rates remained at the same level in 2010. Nationwide, as reported by Colliers International, rental rates for office space have continued to decrease over the last 2 years, with a significant rate decrease in the Boston market.¹⁷

CONCLUSIONS

Downtown Worcester’s overall office occupancy rate experienced a slight decrease from 81.8% in 2009 to 81.2% in 2010. Some of these vacancies may be the direct result of the recession. It should be noted, however, that some buildings downtown have had consistently low occupancy rates even before the recent recession, which may be a result of the quality of the space or of its management. There are 782,100 square feet of vacant office space available in Worcester’s Central Business District, and using an industry standard of 200 square feet of office space per worker, the amount of space currently vacant could potentially

support almost 4,000 additional workers in the downtown area. However, the City will probably have to wait out the current economic downturn for much of this space to be absorbed again.

As local leaders have recognized, the City needs to be concerned not just with attracting new businesses to downtown, but with retaining those that are already here. Among the factors that influence businesses’ location decisions, there are some (e.g., proximity to a major city like Boston, or the availability of undeveloped land) that are beyond the influence of City leaders.

There are others, however, over which the City has considerable influence, including tax rates. Worcester adopted a

dual tax classification system in FY84, allowing different property classes (residential and commercial) to be taxed at different rates.¹⁸ This option effectively shifts part of the tax burden onto businesses, which can put a city at a disadvantage for attracting businesses.¹⁹ In addition, Worcester’s business tax rate is more than double that of nearby towns such as Shrewsbury and Grafton, which have single tax rates. These substantial differences in tax rates do matter. In a survey conducted by the Massachusetts High Technology Council to determine what its member businesses consider important in making location

Table 2: Distribution of Vacancies by Size and Building Class

	Number of Buildings with Vacancies	Total Space Vacant
Class A		
1-10,000 Sq. Ft.	4	26,273
10,001 -25,000 Sq. Ft.	1	12,998
>25,000 Sq. Ft.	3	127,759
<i>Total</i>	8	167,030
Class B		
1-10,000 Sq. Ft.	15	50,092
10,001 -25,000 Sq. Ft.	6	86,400
>25,000 Sq. Ft.	6	348,965
<i>Total</i>	27	485,457
Class C		
1-10,000 Sq. Ft.	9	39,200
10,001 -25,000 Sq. Ft.	4	63,408
>25,000 Sq. Ft.	1	27,000
<i>Total</i>	14	129,608
Total (A, B, C)		
1-10,000 Sq. Ft.	28	115,565
10,001 -25,000 Sq. Ft.	11	162,806
>25,000 Sq. Ft.	10	503,724
<i>Total</i>	49	782,095

decisions, the presence of a dual tax rate and the difference between the two rates ranked highest.²⁰ While Shrewsbury, with a tax rate of \$10.31 per \$1,000 in assessed value, ranked 2nd in the Commonwealth and Grafton, with a tax rate of \$12.43 per \$1,000 ranked 4th, Worcester, with a commercial/ industrial tax rate of \$33.28, ranked 240th. Shrewsbury, Grafton, and other nearby communities are able to take advantage of Worcester’s colleges, universities, and healthcare facilities which are attractive to high tech businesses, while Worcester’s tax rate leaves it much less able to capitalize on its own assets. In 2010, Worcester Mayor Joseph C. O’Brien convened a 36-member task force to look at and make recommendations about the City’s economic development strategy. One recommendation of the group was for the City to move to a more equal tax rate between commercial/ industrial and residential.²¹

The City Administration, like the task force, recognizes the importance of a business-friendly governmental approach. The City is engaged in the

process of establishing an online permitting system, refocusing the Economic Development Division as a division of Business Assistance, and creating a small business liaison. Other factors that could affect business location decisions include the overall “user-friendliness” of the development process, and infrastructure issues (including water and sewer systems and transportation). Also, the “curb appeal” of an area like downtown Worcester could impact a business location decision. The Research Bureau documented the “curb appeal,” or physical condition, of downtown Worcester in October, 2008, by conducting two neighborhood surveys.²² The City’s proposed Streetscape Policy and Urban Design Guidelines (supported by the City’s façade programs) look to improve public and private property while the Administration is also working on a Creative Economy Initiative to help attract creative economy industries (art, music, etc.) to open or expand businesses in certain areas of the City, including downtown.

Table 3: Square Foot Lease Rates* For Office Space in Worcester's CBD, 2006-2010

Year	Class A	Class B	Class C
2006	\$11-\$27	\$6-\$30	\$5-\$15
2007	\$12-\$27	\$6-\$30	\$8-\$15
2008	\$12-\$27	\$6-\$30	\$8-\$14
2009	\$12-\$24	\$6-\$20	\$6-\$20
2010	\$12-\$25	\$6-20	\$6-20

*of lease rates that were provided

As explained earlier, if more incentive tools aimed at Gateway Cities are developed, it could prove

to be a way of attracting new businesses to the downtown area. Additionally, strategies that combine the resources of the public sector with those of economic development specialists and business leaders may yield greater returns than strategies developed by each entity in isolation.

Strengthening Worcester's transportation network could make the City more appealing for employers looking to locate their business and employees outside of the Boston area. In 2010, CSX Corporation released plans to double its rail freight operations in Worcester by moving out of its current location in Allston. The new project is also expected to result in significantly more scheduled commuter rail trains to both cities, which should make it easier to commute to jobs in Worcester, and thereby encourage more businesses to locate in the Worcester area.

¹ The Central Business District, or downtown Worcester, as defined by census tracts, includes the area south of Lincoln Square, north of Chandler, Madison, and Vernon streets, west of I-290, and east of Irving, Linden, and Harvard Streets.

² City Assessor's Office.

³ Benjamin Forman, "Going for Growth: Promoting Business Investment in Massachusetts Gateway Cities," Policy Brief, July 2008. <http://www.massinc.org/index>.

⁴ S. 2380, Economic Development Bill.

⁵ Every effort has been made to ensure the accuracy of the data collected; however, they are self-reported, point-in-time and subject to change.

⁶ While medical office space is included, not included are medical practice space, government buildings, and retail space.

⁷ Total space has changed from year to year because building usage can change from year to year (e.g., several buildings that were formerly office space have been converted to residential space in recent years or office space may have become retail and vice versa).

⁸ The occupancy rate is determined by dividing the total amount of occupied office space by the total square footage of office space in the CBD. The vacancy rate represents the amount of space that is vacant and available for lease divided by the total square footage of office space in the CBD.

⁹ Office space is grouped into three classes, representing a subjective quality rating of buildings by their owners which indicates the competitive ability of each building to attract similar types of tenants. The Building Owners and Managers Association provides additional detail about building classification at <http://www.BOMA.org>. A building's classification may change from one category to another over time (e.g., following renovation, space that had been class "C" space may be listed as class "A" space).

¹⁰ The last major office building constructed in the CBD (Chestnut Place) was completed in 1990.

¹¹ MCPHS was also the first college in the City to sign a PILOT (payment in lieu of taxes) agreement with the City that will contribute more than \$1.5 million over 25 years. Since that time both WPI and Clark University have signed PILOT agreements.

¹² Colliers International, "North America Office Real Estate Highlights."

<http://dsg.colliers.com/document.aspx?report=760.pdf>

¹³ Grubb & Ellis, a commercial real estate advisory firm, reports that nationally vacancy rates in the suburbs are typically higher than those reported for cities' central business districts because most newly constructed office space is located in suburban areas.

¹⁴ Colliers International, "North America Office Real Estate Highlights."

<http://dsg.colliers.com/document.aspx?report=760.pdf>.

¹⁵ Colliers Meredith & Grew, "Market Snapshot, 3rd Quarter 2010 Statistics."

http://www.colliersmg.com/pdfs/snapshot_q3_10.pdf

¹⁶ Rental rates may or may not include utilities.

¹⁷ Colliers International, "North America Office Real Estate Highlights."

(<http://www.colliers.com/Corporate/MarketReports/UnitedStates/>).

¹⁸ "Benchmarking Economic Development in Worcester: 2010," The Research Bureau, Report 10-06, November 2010, www.wrb.org.

¹⁹ "What's Up With Downtown Worcester?: Prospects for Revitalization," The Research Bureau, Report 08-08, December 2008.

²⁰ <http://www.masstrack.org/Methodology.aspx>.

²¹ Mayor's Task Force on Job Growth and Business Retention, "Task Force Report to Mayor Joseph O'Brien." August 2, 2010.

²² "Measuring Downtown Worcester's "Curb Appeal:" ComNET Results," The Research Bureau, Report 08-09, December 2008, www.wrb.org.