



The Research Bureau

Downtown Worcester Office Occupancy: 2008 Survey

Report 08-06
October, 2008

INTRODUCTION

The Research Bureau is pleased to present the results of its seventh 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** below.¹ Our annual reports summarizing these findings continue to be The Research Bureau's most requested and most downloaded report.²

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.³ 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 many decades now, the suburbs and "exurbs" have outpaced central cities in terms of both job and population growth, to the detriment of many of our nation's once vital cores. However, in more recent years, this growth has not necessarily been at the expense of nearby urban areas, as many American cities and their downtowns have been making a comeback.⁴

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 older, industrial cities in Massachusetts. This document expresses a shared commitment to develop and recommend that the state legislature adopt a program of incentives tailored toward the unique needs of these "Gateway Cities." This effort was motivated by a recent report by MassINC which analyzes the current set of economic incentives offered by the Commonwealth and demonstrates how and why they have proved to be ineffective in revitalizing Massachusetts' depressed urban cores.⁵ Worcester's City Manager is currently exploring the creation of a five-year comprehensive plan that identifies the required tools, resources and partnerships needed to secure measurable economic development goals and initiatives. This plan will help focus and guide strategic efforts to make the most of limited resources while leveraging private investment. The plan includes both local and state efforts and incentives for development in all of Massachusetts' "Gateway Cities."

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.

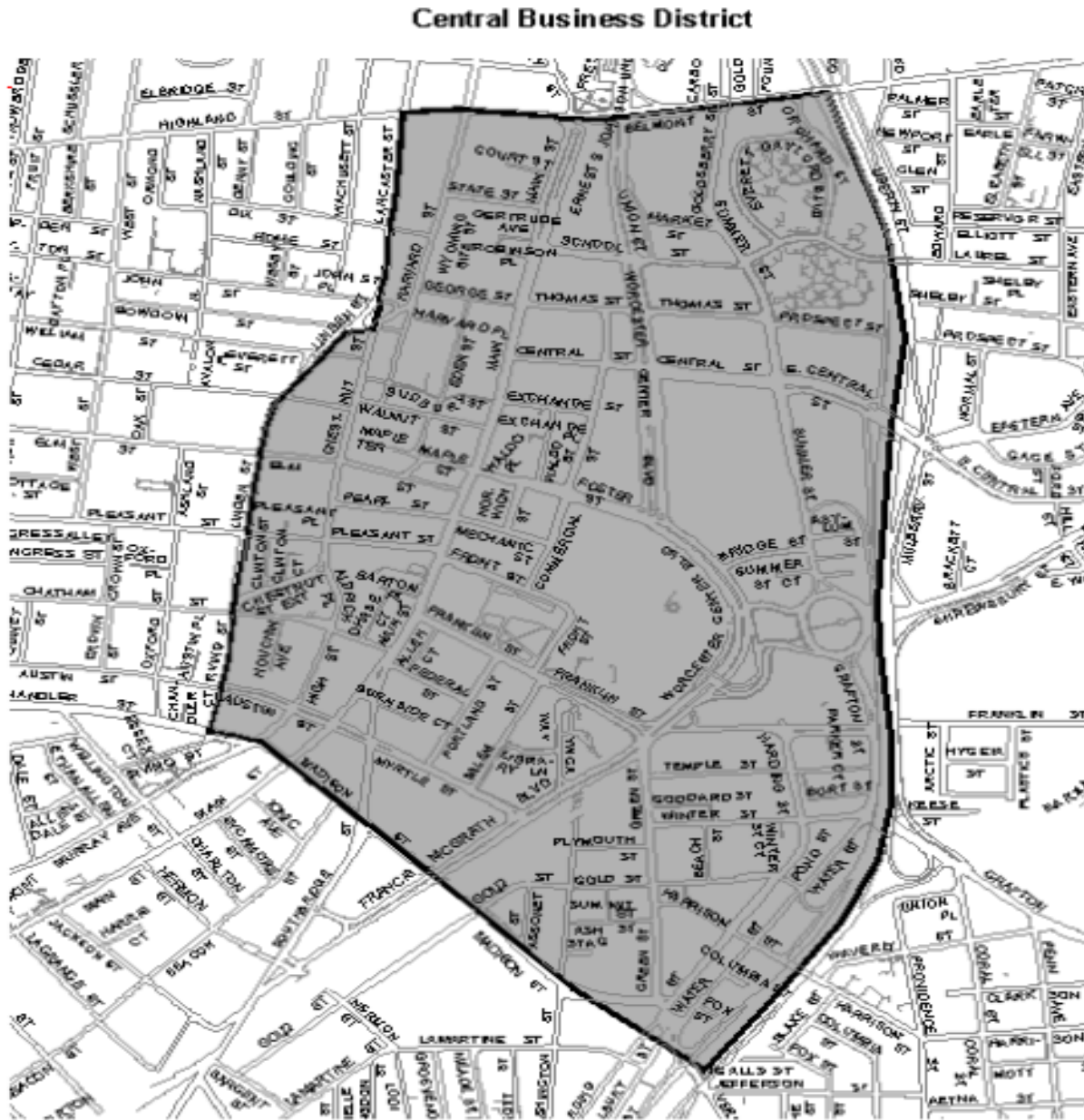
² From 1997 to 2000, the Worcester Regional Chamber of Commerce conducted an annual office occupancy survey in downtown Worcester. Since these earlier survey data did not include owner-occupied office space, the data are not directly comparable to the data collected by The Research Bureau since 2002, and therefore, are not included in this report.

³ City Assessor's Office.

⁴ Alan Ehrenhalt, "Trading Places," *The New Republic*. August 13, 2008, <http://www.tnr.com/politics/story.html?id=264510ca-2170-49cd-bad5-a0be122ac1a9>.

⁵ Benjamin Forman, "Going for Growth: Promoting Business Investment in Massachusetts Gateway Cities," Policy Brief, July 2008. <http://www.massinc.org/index>.

Figure 1



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, 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 2008, 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.⁶ For each of the 88 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.⁷ Since 2002, the survey data have included owner-occupied buildings (such as 18 Chestnut Street which is owned and fully occupied by Unum), because 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 available online at www.wrrb.org.

FINDINGS

Downtown Worcester's Central Business District contains 4.75 million square feet of office space, of which 88.4% was occupied as of August, 2008.^{8,9} As shown in **Table 1**, office occupancy in the CBD increased slightly from 87.3% in 2007 to 88.4% in 2008. Class "A" buildings (considered "premier space," or newly constructed buildings or office space that has undergone extensive renovation) account for about 1.3 million square feet (28%) of office

⁶ Every effort has been made to ensure the accuracy of the data collected; however, they are point-in-time and subject to change.

⁷ While medical office space is included, not included are medical practice space, government buildings, and retail space.

⁸ 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).

⁹ 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.

space.^{10,11} The occupancy rate for Class “A” office space increased one percentage point from 87.9% in 2007 to 88.9% in 2008. The 48 Class “B” buildings (older renovated buildings considered to be in fair to good condition) comprised more than half (52%) of downtown office space, or almost 2.5 million square feet, of which 88.6% was occupied, a two percentage point increase from 2007. Finally, the 950,000 square feet of Class “C” space (older unrenovated buildings offering “functional space”) had an occupancy rate of 87.1%, a slight decrease from 2007 (87.9%). Class C space had the lowest occupancy rate of the three classes, which had also been the trend in 2004 and 2005. In 2006 and 2007, Class B space had the lowest occupancy rate. While the overall 2008 occupancy rate increased from 2007, it has not reached what it had been in the three prior years.

Table 1: Occupancy Rates for Downtown Office Space, 2004-2008

		2004	2005	2006	2007	2008	Change '04-'08
Class A	Total Office Space	1,792,033	1,695,889	1,987,253	1,896,417	1,323,231	-26.2%
	Occupied Space	1,586,186	1,507,585	1,810,043	1,666,917	1,176,503	-25.8%
	Occupancy Rate	88.5%	88.9%	91.1%	87.9%	88.9%	
Class B	Total Office Space	1,436,083	2,082,157	1,667,653	2,243,490	2,480,504	72.7%
	Occupied Space	1,325,158	1,856,772	1,462,126	1,943,623	2,197,624	65.8%
	Occupancy Rate	92.3%	89.2%	87.7%	86.6%	88.6%	
Class C	Total Office Space	1,392,614	918,665	985,335	859,918	948,386	-31.9%
	Occupied Space	1,185,524	799,304	875,335	755,694	826,174	-30.3%
	Occupancy Rate	85.1%	87.0%	88.8%	87.9%	87.1%	
Total	Total Office Space	4,620,730	4,696,705	4,645,674	4,999,825	4,752,121	2.8%
	Occupied Space	4,096,868	4,168,133	4,155,237	4,366,234	4,200,301	2.5%
	Occupancy Rate	88.7%	88.7%	89.4%	87.3%	88.4%	

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 reached 86.8% overall by the end of the second quarter of 2008, and Central Business District markets nationwide achieved an occupancy rate of 88.7%.^{12,13} The occupancy rate for the Boston market reached a level of 91.2% by the second quarter of 2008. For the third quarter of 2008, Colliers Meredith & Grew reported an 89.4% occupancy rate for office and research and development space for Worcester as a whole.¹⁴

¹⁰ Office space is grouped into three classes, representing a subjective quality rating of buildings 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).

¹¹ The last major office building constructed in the CBD (Chestnut Place) was completed in 1990.

¹² Colliers International, “North America Office Real Estate Highlights.”

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

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 Meredith & Grew, “Market Snapshot.” (http://www.colliersmg.com/pdfs/snapshot_q3_08.pdf).

As shown in **Table 2**, in 2008 36% of the office buildings in the downtown area contain available vacant space (in 2007 this number was higher at 43%). Among these, 15 buildings have vacancies of 10,000 square feet or less, ten have between 10,001 and 25,000 square feet of available space, and seven buildings 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 (282,880 square feet, or 51.3 %). This was also the case from 2005 through 2007, but in 2004 Class “B” represented the smallest proportion of vacant space. The large decrease in the total amount of Class A space is largely the result of a shift in Unum’s classification of its space from A to B.

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.	3	23,100
10,001 -25,000 Sq. Ft.	0	0
>25,000 Sq. Ft.	3	123,628
<i>Total</i>	6	146,728
Class B		
1-10,000 Sq. Ft.	9	61,900
10,001 -25,000 Sq. Ft.	5	64,833
>25,000 Sq. Ft.	3	156,147
<i>Total</i>	17	282,880
Class C		
1-10,000 Sq. Ft.	3	21,250
10,001 -25,000 Sq. Ft.	5	68,189
>25,000 Sq. Ft.	1	32,773
<i>Total</i>	9	122,212
Total (A, B, C)		
1-10,000 Sq. Ft.	15	106,250
10,001 -25,000 Sq. Ft.	10	133,022
>25,000 Sq. Ft.	7	312,548
<i>Total</i>	32	551,820

In 2008, property owners and agents provided information on lease rates for almost half (48%) of the properties listed in **Appendix A**. Reported square foot lease rates for these properties ranged from \$6 per square foot to \$30 per square foot in 2008, as shown below in **Table 3**. Over the past five years, rental rates in Downtown have changed only slightly, indicating that demand is insufficient to raise rates. Nationwide, as reported by Colliers International, rental rates for office space have been showing only modest increases, perhaps due to the weakening of the general economy.¹⁵

¹⁵ Colliers International, “North America Office Real Estate Highlights.” (<http://www.colliers.com/Corporate/MarketReports/UnitedStates/>).

Table 3: Square Foot Lease Rates* For Office Space in Worcester's CBD, 2004-2008			
Year	Class A	Class B	Class C
2004	\$12-\$26	\$7.50-\$20	\$8-\$18
2005	\$14-\$27	\$5-\$20	\$8-\$15
2006	\$11-\$27	\$6-\$30	\$5-\$15
2007	\$12-\$27	\$6-\$30	\$8-\$15
2008	\$12-\$27	\$6-\$30	\$8-\$14
*of lease rates that were provided			

RETAIL SPACE

For the first time, The Research Bureau attempted to inventory the amount of vacant retail space downtown. Having a fair amount of retail in the downtown area, such as restaurants, clothing shops, drugstores, etc., is important because it attracts people to the area and keeps other types of tenants in the area.

In downtown Worcester, there is almost 300,000 square feet of vacant space that could be used for retail. It should be noted that this figure is not in addition to the 551,820 square feet of vacant space cited in Table 2. There is significant overlap between these two figures because some properties allow for either office or retail to occupy the space. Vacant retail space downtown was available in Class A, B, and C space, with rents ranging from \$11-25. Also, much of this vacant space is available at the street level.

The slowing and weakening economy that the nation is currently experiencing has led to a sluggish retail environment, resulting in retailers closing stores and halting expansion plans, as reported by Colliers International.¹⁶

CONCLUSIONS

Downtown Worcester’s overall office occupancy rate increased from 87.3% in 2007 to 88.4% in 2008. There are 551,820 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 2,800 additional workers in the downtown area. Also, almost 300,000 square feet of vacant retail space is available downtown.

As local leaders have recognized, the City needs to be concerned not just with attracting new businesses to downtown, but retaining those that are already here. Among the factors that

¹⁶ Colliers International, http://www.colliers.com/Content/Repositories/Base/Corporate/English/Market_Report_Corporate/PDFs/RetailNaHighlightsSpring2008.pdf.

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, the overall "user-friendliness" of the development process, and infrastructure issues (including water and sewer systems and transportation). Additionally, strategies that combine the resources of the public sector with those of economic development players and business leaders may yield greater returns than strategies developed by each entity in isolation.

One such strategy is Choose Worcester Inc., launched in 2005 by public and private sector leaders to market the City to prospective businesses and attract and retain jobs in Worcester.¹⁷ The non-profit group, which has secured more than \$1 million in funding from local businesses and foundations, recently celebrated its first anniversary in business. During this year, the organization represented Worcester at several national and international events, met with over 100 companies and other agencies, and, in coordination with the City and other partners, assisted in attracting four new companies to Worcester and helped to retain and expand two existing Worcester companies.¹⁸ In its second year, Choose Worcester will focus on attracting businesses to the Downtown area.

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 early October, state officials and CSX, the company that owns the Worcester/Framingham tracks, made an agreement after years of negotiations for the state to purchase the rail lines between Boston and Worcester.¹⁹ In the immediate future, five additional daily trains will be added between Worcester and Boston, and another six daily trains would be added over the next four years. (Currently, there are ten roundtrip trains that travel between Union Station in downtown Worcester to South Station in Boston on weekdays).²⁰ These additional trains should make it easier to commute to jobs in the Boston area while encouraging more businesses to locate in the Worcester area since commuters will have more options to get to work here.

¹⁷ www.chooseworcester.com.

¹⁸ "Choose Worcester," *Investor's News*, September 10, 2008.

¹⁹ John J. Monahan, "State to Buy Worcester-Boston Rail Line," *Worcester Telegram & Gazette*, October 2, 2008.

²⁰ *Ibid.*