



The Research Bureau

Downtown Worcester Office Occupancy: 2009 Survey

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INTRODUCTION

The Research Bureau is pleased to present the results of its eighth 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 Our annual summaries of these findings continue to be The Research Bureau's most requested and most downloaded report.

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. However, in more recent years, this growth has not always occurred at the expense of nearby urban areas, as many American cities and their downtowns have been making a comeback.³

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' depressed urban cores.⁴

The product of these efforts is H. 2702, "An act to promote economic development in gateway cities," a bill currently under consideration by the state Legislature. This legislation aims to provide Worcester and other Gateway Cities with an array of new tax incentives, better tailored to their unique strengths and weaknesses. For example, the bill would help Worcester stimulate more interest in its many old buildings by lifting the cap on historic tax credits. It would also provide tax incentives for market rate housing. Worcester has plenty of affordable housing

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.

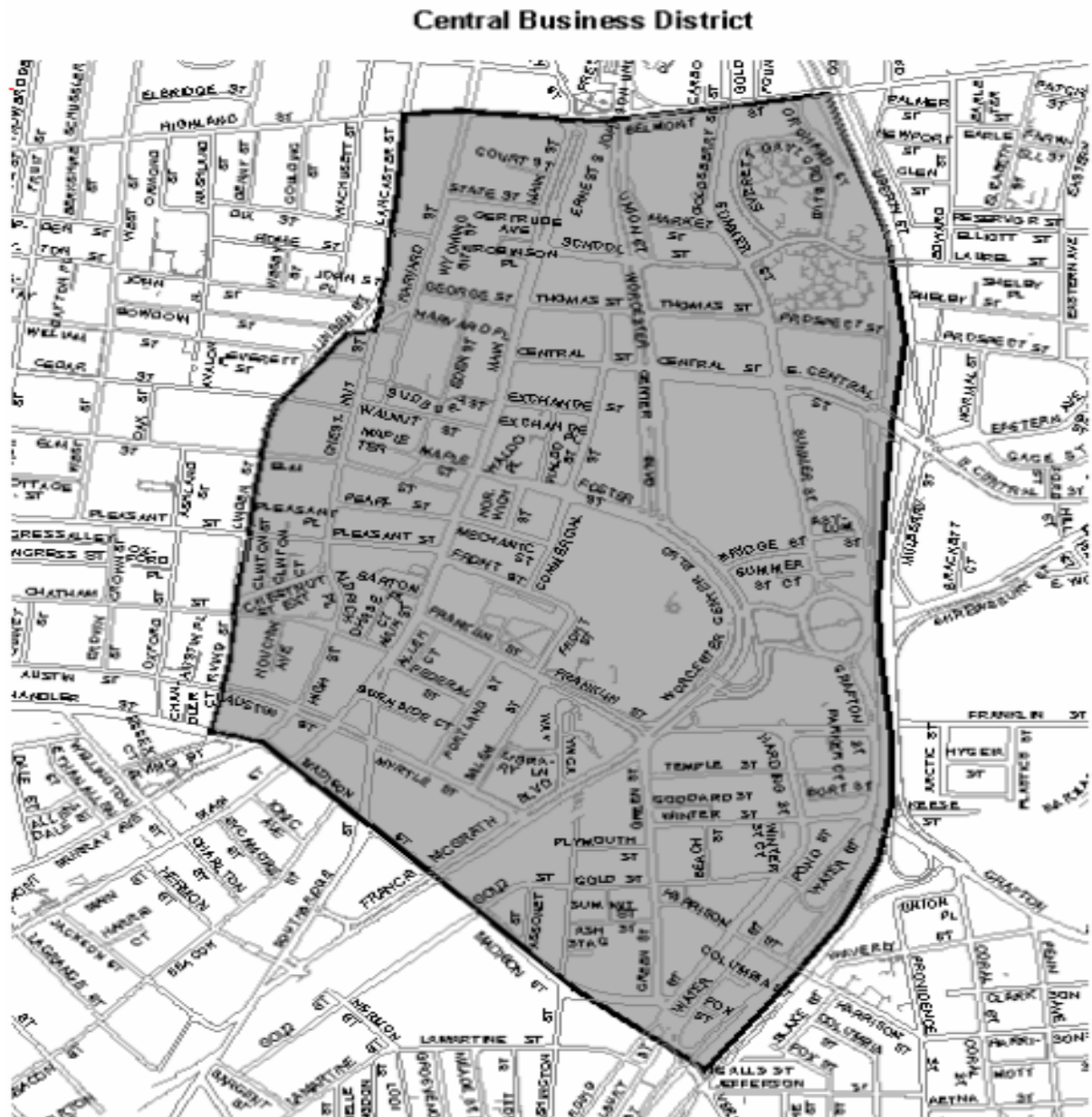
² City Assessor's Office.

³ Alan Ehrenhalt, "Trading Places," *The New Republic*. August 13, 2008, <http://www.tnr.com/politics/story.html?id=264510ca-2170-49cd-bad5-a0be122ac1a9>.

⁴ Benjamin Forman, "Going for Growth: Promoting Business Investment in Massachusetts Gateway Cities," Policy Brief, July 2008. <http://www.massinc.org/index>.

(14%, well above the 10% benchmark), so it is redundant to require developers to include affordable housing in their projects as most programs currently do. With regard to downtown, the bill would provide corporate income tax credits for job creation. This could make downtown more attractive to “knowledge sector” businesses who just need office space, and for whom existing tax incentives for capital improvements such as the Tax-Incentive Financing (“TIF”) and District Improvement Financing (“DIF”) programs, hold no appeal.

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, 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 2009, 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 81 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.

⁵ Every effort has been made to ensure the accuracy of the data collected; however, they are 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.

FINDINGS

Downtown Worcester's Central Business District contains 4.46 million square feet of office space, of which 82% was occupied as of August, 2009.^{7,8} Office occupancy in the CBD was the lowest it has been since The Research Bureau began collecting these data in 2002. Office occupancy dropped by more than six percentage points from 2008 to 2009, from 88.4% to 81.8%.

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. The 42 Class "B" buildings (older renovated buildings considered to be in fair to good condition) comprised about half of downtown office space, or almost 2.3 million square feet. Of this, 75.9% was occupied, a sharp decrease from 2008 when 88.6% of Class B space was occupied. Finally, the 780,000 square feet of Class "C" space (older unrenovated buildings offering "functional space") had an occupancy rate of 84%, a decrease from 2008 (87%). Class B space thus had the lowest occupancy rate by far of the three classes. This was true in 2006 and 2007 as well. (In 2005 and 2008, Class C space had the lowest occupancy rate.)

During the past five years, Downtown has lost approximately 5% of total office space, or almost 235,000 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 years, has invested about \$65 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 100 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.

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 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 is 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.

Table 1: Occupancy Rates for Downtown Office Space, 2005-2009

| | | 2005 | 2006 | 2007 | 2008 | 2009 | Change '05-'09 |
|----------------|-----------------------|--------------|--------------|--------------|--------------|--------------|----------------|
| Class A | Total Office Space | 1,695,889 | 1,987,253 | 1,896,417 | 1,323,231 | 1,411,572 | -16.8% |
| | Occupied Space | 1,507,585 | 1,810,043 | 1,666,917 | 1,176,503 | 1,274,529 | -15.5% |
| | Occupancy Rate | 88.9% | 91.1% | 87.9% | 88.9% | 90.3% | |
| Class B | Total Office Space | 2,082,157 | 1,667,653 | 2,243,490 | 2,480,504 | 2,274,064 | 9.2% |
| | Occupied Space | 1,856,772 | 1,462,126 | 1,943,623 | 2,197,624 | 1,726,269 | -7.0% |
| | Occupancy Rate | 89.2% | 87.7% | 86.6% | 88.6% | 75.9% | |
| Class C | Total Office Space | 918,665 | 985,335 | 859,918 | 948,386 | 776,147 | -15.5% |
| | Occupied Space | 799,304 | 875,335 | 755,694 | 826,174 | 650,855 | -18.6% |
| | Occupancy Rate | 87.0% | 88.8% | 87.9% | 87.1% | 83.9% | |
| Total | Total Office Space | 4,696,705 | 4,645,674 | 4,999,825 | 4,752,121 | 4,461,783 | -5.0% |
| | Occupied Space | 4,168,133 | 4,155,237 | 4,366,234 | 4,200,301 | 3,669,709 | -12.0% |
| | Occupancy Rate | 88.7% | 89.4% | 87.3% | 88.4% | 81.8% | |

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 84.5% overall by the end of the second quarter of 2009, and Central Business District markets (Downtown) nationwide had an occupancy rate of 86.2%.^{12,13} These are both significant drops from the previous year. The occupancy rate for the Boston market dropped to 87% by the third quarter of 2009 (a decrease from 91.2% occupancy the previous year).¹⁴

As shown in **Table 2**, in 2009 60% of the office buildings in the downtown area contain available vacant space. Among these, 27 buildings have vacancies of 10,000 square feet or less, thirteen have between 10,001 and 25,000 square feet of available space, and nine 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 (547,795 square feet, or 67.6%, of vacant space downtown).

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 “Market Snapshot: 3rd Quarter 2009 Statistics – Office/ R & D,” Colliers Meredith & Grew, http://www.colliersmg.com/pdfs/snapshot_q3_09.pdf.

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. | 5 | 25,993 |
| 10,001 -25,000 Sq. Ft. | 2 | 31,640 |
| >25,000 Sq. Ft. | 2 | 79,420 |
| <i>Total</i> | 9 | <i>137,053</i> |
| Class B | | |
| 1-10,000 Sq. Ft. | 14 | 63,353 |
| 10,001 -25,000 Sq. Ft. | 7 | 100,697 |
| >25,000 Sq. Ft. | 6 | 383,745 |
| <i>Total</i> | 27 | <i>547,795</i> |
| Class C | | |
| 1-10,000 Sq. Ft. | 8 | 29,524 |
| 10,001 -25,000 Sq. Ft. | 4 | 66,200 |
| >25,000 Sq. Ft. | 1 | 29,568 |
| <i>Total</i> | 13 | <i>125,292</i> |
| Total (A, B, C) | | |
| 1-10,000 Sq. Ft. | 27 | 118,870 |
| 10,001 -25,000 Sq. Ft. | 13 | 198,537 |
| >25,000 Sq. Ft. | 9 | 492,733 |
| <i>Total</i> | 49 | <i>810,140</i> |

Other Data

In 2009, 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 \$24 per square foot in 2009, as shown on the accompanying page in **Table 3**.¹⁵ While rental rates remained stagnant between 2005 and 2008, there appears to have been a slight decrease in rates in 2009. Nationwide, as reported by Colliers International, rental rates for office space have been decreasing of late, with a significant rate decrease in the Boston market.¹⁶

¹⁵ Rental rates may or may not include utilities.

¹⁶ 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, 2005-2009 | | | |
|---|------------------|-----------------|-----------------|
| Year | Class A | Class B | Class C |
| 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 |
| 2009 | \$12-\$24 | \$6-\$20 | \$6-\$20 |
| *of lease rates that were provided | | | |

CONCLUSIONS

Downtown Worcester’s overall office occupancy rate significantly decreased from 88% in 2008 to 82% in 2009. Some of these vacancies may be the direct result of the recession. In addition, the tenant at 57 Union Street vacated the premises since The Research Bureau’s last survey leaving 100,000 square feet unoccupied. It should also be noted that some buildings downtown have had consistently low occupancy rates even before the recent recession.

There are 810,140 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 4,050 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, commercial) to be taxed at different rates.¹⁷ This option effectively shifts part of the tax burden onto businesses, which can put a city at a disadvantage for attracting businesses.¹⁸ In addition, Worcester’s business tax rate is about three times as high as nearby towns such as Shrewsbury and Grafton which have single tax rates. These substantial differences in tax rates do matter. In a recent survey conducted by the Massachusetts High Technology Council to

¹⁷ “Benchmarking Economic Development in Worcester: 2008,” The Research Bureau, Report 08-07, November 2008, www.wrb.org.

¹⁸ “What’s Up With Downtown Worcester?: Prospects for Revitalization,” The Research Bureau, Report 08-08, December 2008.

determine what its member businesses consider important in making location decisions, a dual tax rate and the differential between the two rates ranked highest.¹⁹ While Shrewsbury with a tax rate of \$9.68 per \$1,000 in assessed value ranked 2nd in the Commonwealth and Grafton with a tax rate of \$10.83 per \$1,000 ranked 4th, Worcester, with a commercial/industrial tax rate of \$28.72, 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.

Other factors affecting 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.²⁰

As explained earlier, if the legislation aimed at Gateway Cities redevelopment passes, 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 September, state officials and CSX, the company that owns the Worcester/Framingham railroad tracks, reached final agreement after years of negotiations for the state to purchase the rail lines between Boston and Worcester.²¹ In a tentative agreement signed in October, 2008, five daily trains were added between Worcester and Boston.²² The new finalized agreement should result in more scheduled 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.

¹⁹ <http://www.masstrack.org/Methodology.aspx>.

²⁰ "Measuring Downtown Worcester's "Curb Appeal:" ComNET Results," The Research Bureau, Report 08-09, December 2008, www.wrrb.org.

²¹ John J. Monahan & Priyanka Dayal, "CSX Deal Hailed." *Worcester Telegram & Gazette*, September 24, 2009.

²² John J. Monahan, "State to Buy Worcester-Boston Rail Line," *Worcester Telegram & Gazette*, October 2, 2008.