



The Research Bureau

**Downtown Worcester Office
Occupancy: 2007 Survey**

CCPM-07-03

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Center for Community Performance Measurement

INTRODUCTION

The Research Bureau's Center for Community Performance Measurement (CCPM) is pleased to present the results of its sixth annual downtown office occupancy survey. In 2002, the CCPM 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. 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. Nationwide, the suburbs have outpaced central cities in terms of both job growth and population growth over the past decade. The resulting "exit ramp economy," in which new office space and retail facilities are increasingly located along suburban freeways, continues to have a detrimental effect on many of our nation's once-vibrant urban cores.³ However, a number of cities have developed strategies aimed at keeping existing businesses downtown as well as attracting new tenants to vacant space that have proven to be successful, and those strategies may be replicable in other communities.

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. CCPM'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.

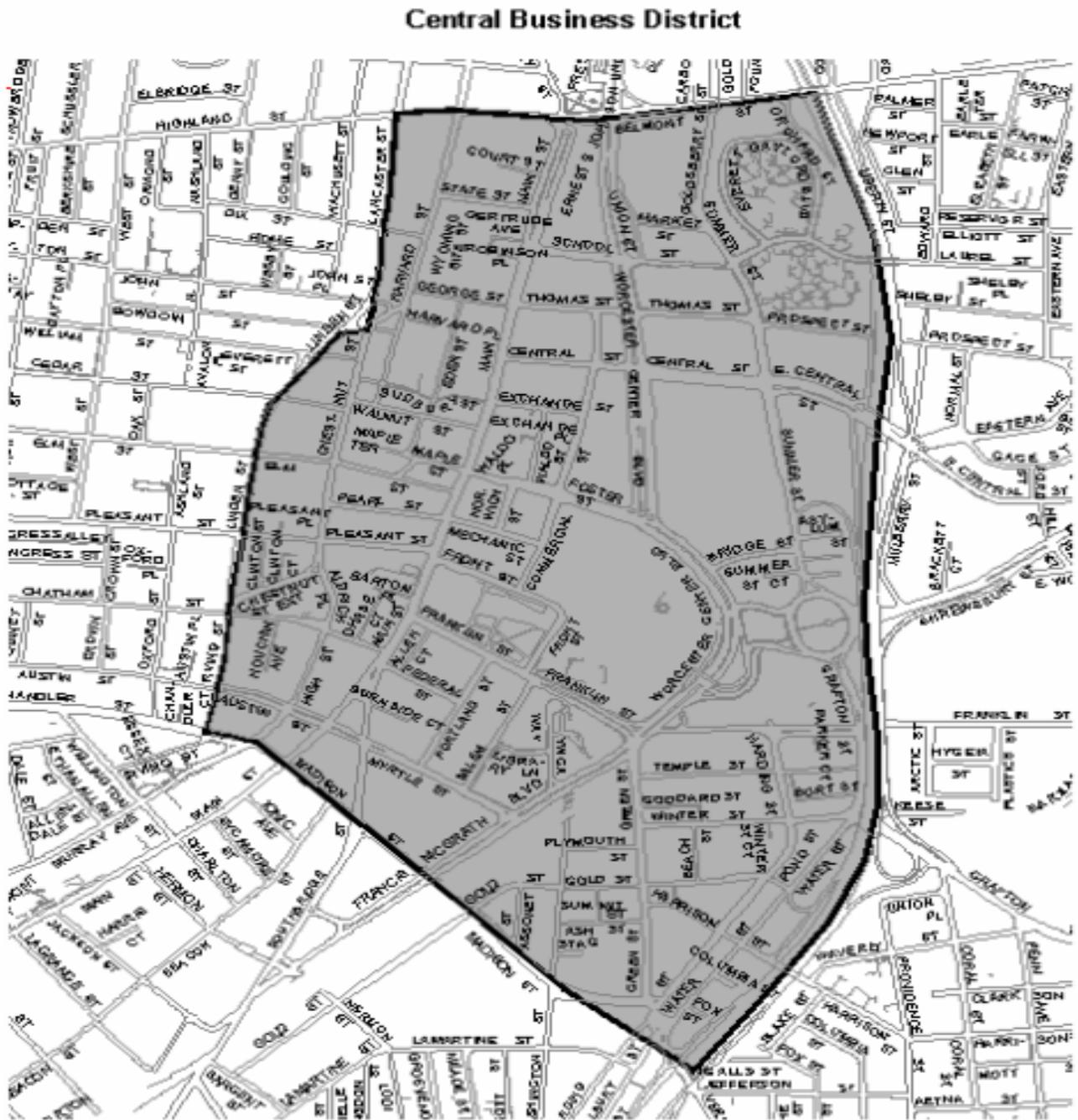
We hope that the information presented here is useful to a broad audience including current and potential property owners and managers, established businesses in the City as well as businesses interested in locating here, real estate brokers, and public officials and community leaders working to attract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

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 Katz, Bruce, "A Progressive Agenda for Metropolitan America," The Brookings Institution, May 2004.

Figure 1



METHODOLOGY

During the summer of 2007, CCPM 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.⁴ For each of the 90 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.⁵ 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 almost 5 million square feet of office space, of which 87.3% was occupied as of August, 2007.^{6,7} As shown in **Table 1**, office occupancy in the CBD has decreased from 89.4% in 2006 to 87.3% in 2007. Class "A" buildings (considered "premier space," or newly constructed buildings or office space that has undergone extensive renovation) account for about 1.9 million square feet (38%) of office space.^{8,9} The occupancy rate for Class "A" office space was 87.9% in 2007, a decrease from 2006 (91.1%). The 47 Class "B" buildings (older renovated buildings considered to be in fair to good condition) comprised 2.24 million square feet (45%) of downtown office space, of which 86.6% was occupied, the lowest occupancy rate among the three building classes. Finally, the 860,000 square feet of Class "C" space (older unrenovated buildings offering "functional space") had an occupancy rate of 87.9%. The Class "B" occupancy rate has been steadily declining over the past four years, and 2007 marked the second year in a row that Class "B" space had the lowest occupancy rate. Overall, the 2007 occupancy rate was the lowest it had been during the five-year period from 2003-2007.

⁴ Every effort has been made to ensure the accuracy of the data collected; however, they are point-in-time and subject to change.

⁵ While medical office space is included, not included are medical practice space, government buildings, and retail space.

⁶ This figure 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).

⁷ 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.

⁸ 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).

⁹ The last major office building constructed in the CBD (Chestnut Place) was completed in 1990.

Table 5.1: Occupancy Rates for Downtown Office Space, 2003-2007

		2003	2004	2005	2006	2007	Change '03-'07
Class A	Total Office Space	2,256,536	1,792,033	1,695,889	1,987,253	1,896,417	-16.0%
	Occupied Space	2,055,925	1,586,186	1,507,585	1,810,043	1,666,917	-18.9%
	Occupancy Rate	91.1%	88.5%	88.9%	91.1%	87.9%	
Class B	Total Office Space	1,278,478	1,436,083	2,082,157	1,667,653	2,243,490	75.5%
	Occupied Space	1,181,944	1,325,158	1,856,772	1,462,126	1,943,623	64.4%
	Occupancy Rate	92.4%	92.3%	89.2%	87.7%	86.6%	
Class C	Total Office Space	1,553,508	1,392,614	918,665	985,335	859,918	-44.6%
	Occupied Space	1,315,865	1,185,524	799,304	875,335	755,694	-42.6%
	Occupancy Rate	84.7%	85.1%	87.0%	88.8%	87.9%	
Total	Total Office Space	5,088,522	4,620,730	4,696,705	4,645,674	4,999,825	-1.7%
	Occupied Space	4,553,734	4,096,868	4,168,133	4,155,237	4,366,234	-4.1%
	Occupancy Rate	89.5%	88.7%	88.7%	89.4%	87.3%	

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 87.7% overall by the end of the second quarter of 2007, and Central Business District markets nationwide achieved an occupancy rate of 89.1%.^{10,11} The occupancy rate for the Boston market reached a level of 91.1% by the second quarter of 2007. Data allowing for comparisons of Worcester with its immediate border communities are not currently available.

As shown in **Table 2**, in 2007 43% of the office buildings in the downtown area contain available vacant space (in 2006 this number was slightly higher at 49%). Among these, 22 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 (299,867 square feet, or 47.3 %). This was also the case in 2006 and 2005, but in 2004 Class "B" represented the smallest proportion of vacant space.

¹⁰ Colliers International, "North America Office Real Estate Highlights." (<http://www.colliers.com/Corporate/MarketReports/UnitedStates/>).

¹¹ 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.

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	19,654
10,001 -25,000 Sq. Ft.	2	32,460
>25,000 Sq. Ft.	4	177,386
<i>Total</i>	9	229,500
Class B		
1-10,000 Sq. Ft.	14	94,293
10,001 -25,000 Sq. Ft.	2	34,781
>25,000 Sq. Ft.	3	170,793
<i>Total</i>	19	299,867
Class C		
1-10,000 Sq. Ft.	5	23,585
10,001 -25,000 Sq. Ft.	6	80,639
>25,000 Sq. Ft.	0	0
<i>Total</i>	11	104,224
Total (A, B, C)		
1-10,000 Sq. Ft.	22	137,532
10,001 -25,000 Sq. Ft.	10	147,880
>25,000 Sq. Ft.	7	348,179
<i>Total</i>	39	633,591

In 2007, property owners and agents provided information on rental rates for almost half (46%) of the properties listed in **Appendix A**. Reported monthly rental rates for these properties ranged from \$5 per square foot to \$30 per square foot in 2007, as shown below in **Table 3**. Nationwide, as reported by Colliers International, rental rates for office space have been steadily increasing.¹²

Table 3: Monthly Rental Rates For Office Space in Worcester's CBD, 2003-2007			
Year	Class A	Class B	Class C
2003	\$12-\$26	\$9-\$20	\$8-\$15
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

¹² Colliers International, "North America Office Real Estate Highlights." (<http://www.colliers.com/Corporate/MarketReports/UnitedStates/>).

CONCLUSIONS

Downtown Worcester's overall office occupancy rate decreased from 89.4% in 2006 to 87.3% in 2007. There are 633,591 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 more than 3,000 additional workers in the downtown area.

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 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. The non-profit group, which has secured more than \$1 million in funding from local businesses and foundations, has recently hired a CEO to lead the organization.

Inadequate commuter-rail service serving points between Worcester and Boston may frustrate efforts to attract new business downtown. Talks to increase the number of trains traveling to and from Worcester have occurred for a number of years, but negotiations and arrangements with CSX, the company that owns the Worcester/Framingham tracks, have not yet been successful (ten roundtrip trains travel between Union Station in downtown Worcester to South Station in Boston on weekdays). 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.