



The Research Bureau

# **Downtown Worcester Office Occupancy: 2011 Survey**

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## EXECUTIVE SUMMARY

This is the tenth installment of The Research Bureau's annual survey of office occupancy rates in downtown Worcester. During the summer of 2011, Research Bureau staff surveyed property owners and leasing agents of the 75 properties downtown identified as containing some amount of office space. Information was solicited regarding 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 details. The data include leased and owner-occupied office space for single- and multi-tenant properties for all classes of commercial office buildings.

Chief findings of The Research Bureau's 2011 survey include:

- Among the buildings surveyed in its 2011 Downtown Office Occupancy Survey, The Research Bureau found an overall occupancy rate of 79%. For Class A space, the rate was 84%, Class B 74%, and Class C 87%.
- This represents a statistically insignificant change from 2010's occupancy rate of 81%. However, over the past five years, there is a clear trend towards greater vacancy rates in downtown. In 2006, The Research Bureau found the occupancy rate to be 89%.
- Leasing rates in downtown begin at \$6 per square foot for Class B and C space and \$11 per square foot for Class A.
- At least 21 buildings downtown have 10,000 or more square feet available for lease.
- The vacancy rate in downtown Worcester does not seem to be high relative to other urban markets, or other markets in Massachusetts. According to Collier's International, the I-495 corridor now has a vacancy rate about 10 points higher than downtown Worcester's.
- The outlook on downtown Worcester is mixed. Vacancy rates have risen over the past five years. The ongoing recession and underinvestment in old buildings will continue to hinder efforts at revitalization. However, there are a number of major projects underway in downtown, indicating strong market confidence among some institutions and businesses.

## INTRODUCTION

Worcester’s City Manager has made downtown revitalization a priority of his administration. This has been pursued through the increased use of tax incentives, most notably the tax-increment financing (TIF) and district improvement financing (DIF) programs, and public-private partnerships. At present, several major developments are planned and underway downtown (Table 1).

| Project                                                                                                                                                                                        | Developer                                                                                                                                            | Investment                                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>City Square</b> (Demolition of Worcester Common Outlets Mall; construction of new St. Vincent Hospital cancer center (66,000 sq. ft.); construction of new Unum building (214,000 sq. ft.)) | Leggat McCall and Opus Investment Management (real estate arm of Hanover Insurance Group); Vanguard Health Systems (owner of St. Vincent’s Hospital) | Cancer center-\$21 million; Unum building-\$65 million; demolition and infrastructure work-\$46.4 million (state and local)                                             |
| <b>New optometry school building</b> (six stories, 54,000 sq. ft.)                                                                                                                             | Massachusetts College of Pharmacy and Health Sciences                                                                                                | \$10 million                                                                                                                                                            |
| <b>Gateway Park II</b> (four stories, 100,000 sq. ft. of laboratory, academic and office space)                                                                                                | O’Connell Development Group of Holyoke                                                                                                               | \$30 million (includes \$5.2 million grant from Massachusetts Life Sciences Center)                                                                                     |
| <b>Rehabilitation of Worcester Vocational School complex</b> (95 units of low-income and market-rate housing)                                                                                  | Worcester Business Development Corporation and Winn Development (67 units of mixed income); Acorn Management of Quincy (22 units market rate)        | WBDC/Winn project-\$27 million (includes \$1.5 million Historic Tax Credits; \$400,000 from Mass Development; \$400,000 from EPA for brownfield remediation); Acorn-N/A |
| <b>Rehabilitation of Former Bancroft Motors Building</b> (81 units of market-rate housing)                                                                                                     | Mayo Group                                                                                                                                           | \$4 million                                                                                                                                                             |

The Research Bureau has been surveying occupancy rates in downtown<sup>1</sup> Worcester since 2002. During the summer of 2011, Research Bureau staff gathered information from property owners, leasing agents, and online data sources to determine the total amount of office space in downtown Worcester and the proportion of that space that was occupied. For most of the 75 properties downtown identified as containing some amount of office space, 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 details.<sup>2</sup> The data include leased and owner-occupied office space for single- and multi-tenant properties for all classes of commercial office buildings. The **Appendix** provides a detailed listing of the properties surveyed.

It should be emphasized that the data reported here are self-reported by property owners and leasing agents, point-in-time, and subject to change. Not all owners have responded to the survey and it has not been possible to compile data on every property for every year. Small changes over one year may not be statistically significant.

## FINDINGS

Downtown Worcester contains approximately 4.5 million square feet of office space. Of the 4 million square feet surveyed by The Research Bureau in 2011, 79% was occupied (Table 2).<sup>3</sup>

**Table 2: Occupancy Rates for Office Space in Downtown Worcester, 2006-2011**

|                | Class A        | Class B        |
|----------------|----------------|----------------|
|                | Occupancy Rate | Occupancy Rate |
| 2006           | 91%            | 88%            |
| 2007           | 88%            | 87%            |
| 2008           | 89%            | 89%            |
| 2009           | 90%            | 76%            |
| 2010           | 88%            | 75%            |
| 2011           | 84%            | 74%            |
| Change '06-'10 | -8%            | -16%           |
|                | Class C        | Total          |
|                | Occupancy Rate | Occupancy Rate |
| 2006           | 89%            | 89%            |
| 2007           | 88%            | 87%            |
| 2008           | 87%            | 88%            |
| 2009           | 84%            | 82%            |
| 2010           | 84%            | 81%            |
| 2011           | 87%            | 79%            |
| Change '06-'10 | -2%            | -11%           |

A high and rising office vacancy rate in downtown, to many, would seem to indicate persistent economic weakness in downtown Worcester. But some context is necessary. First, commercial space has held up reasonably well in Worcester during the recession. Since FY08, Worcester's residential valuation has dropped by 19% while its commercial valuation has actually increased by 1% (Table 3).

**Table 3: Assessed Values by Class in Worcester During the Recession**

|               | Commercial      | Industrial    | Residential      |
|---------------|-----------------|---------------|------------------|
| FY08          | \$1,471,965,400 | \$443,442,800 | \$10,462,845,300 |
| FY09          | \$1,477,436,400 | \$455,813,100 | \$9,816,041,700  |
| FY10          | \$1,482,946,949 | \$433,955,303 | \$8,585,028,213  |
| FY11          | \$1,493,686,290 | \$442,722,823 | \$8,495,190,076  |
| FY08 vs. FY11 | 1%              | 0%            | -19%             |

Source: Massachusetts Department of Revenue

44, or about 64% of the buildings surveyed contain available vacant space; 21 buildings contain 10,000 or more vacant square feet (Table 4).

**Table 4: Distribution of Vacancies by Building, Amount, and Class**

| Amount of Vacant Space (Square Feet) | Number of Buildings with Vacancies |
|--------------------------------------|------------------------------------|
| <b>Class A</b>                       |                                    |
| 1-10,000                             | 3                                  |
| 10,001 -25,000                       | 3                                  |
| >25,000                              | 3                                  |
| Total                                | 9                                  |
| <b>Class B</b>                       |                                    |
| 1-10,000                             | 15                                 |
| 10,001 -25,000                       | 5                                  |
| >25,000                              | 6                                  |
| Total                                | 26                                 |
| <b>Class C</b>                       |                                    |
| 1-10,000                             | 5                                  |
| 10,001 -25,000                       | 3                                  |
| >25,000                              | 1                                  |
| Total                                | 9                                  |
| <b>Total (A, B, C)</b>               |                                    |
| 1-10,000                             | 23                                 |
| 10,001 -25,000                       | 11                                 |
| >25,000                              | 10                                 |
| Total                                | 44                                 |

Property owners and agents provided lease rate information for about 60% of the properties listed in the Appendix. 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 5.<sup>4</sup>

**Table 5: Reported Lease Rates For Office Space in Downtown Worcester 2006-2011 (per square foot)**

| 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  |
| 2011 | \$11-22 | \$6-29  | \$6-25  |

According to Colliers International, a Seattle-based commercial real estate firm, the average rate for downtown Class A space across the nation is \$38.98 per square foot.

### Office Vacancy Rates Outside of Downtown Worcester

In the fall of 2011, the American economy remains fragile and office vacancy rates reflect this. According to data compiled by Colliers, many markets continue to experience vacancy rates of 15-20% (Table 6).

**Table 6: Office Vacancy Rates in Other Markets (2Q 2011)**

| Market                      | Vacancy Rate |
|-----------------------------|--------------|
| Boston (Back Bay)           | 8.0%         |
| Boston (Financial District) | 19.6%        |
| Boston (general)            | 16.3%        |
| Cambridge                   | 13.3%        |
| Suburbs                     | 21.4%        |
| Route 495 West              | 29.5%        |
| Worcester                   | 14.5%        |
| Downtown Chicago            | 15.8%        |
| Downtown Atlanta            | 16.1%        |
| Downtown Detroit            | 17.8%        |
| Downtown New Haven          | 9.9%         |
| Manhattan                   | 11.1%        |
| National                    | 15.3%        |

Source: Collier's International

Office vacancy rates appear to be lower in downtown Worcester than in nearby markets along the I-495 corridor, where Collier's reports a 29.5% vacancy rate. Cushman & Wakefield, another international commercial real estate firm, cited a 25.8% rate for the I-495 area. Collier's and Cushman and Wakefield both report a rate of around 21% for MetroWest in general.<sup>5</sup>

As Table 6 also shows, the office occupancy rate for Worcester in general seems to be higher than the rate for downtown Worcester, as reported by The Research Bureau.

## ANALYSIS AND CONCLUSION

A recent article in the *Telegram and Gazette* highlighted downtown Worcester's problem with old, vacant buildings in deteriorating condition.<sup>6</sup> According to The Research Bureau's past surveys, the vacancy rates in these buildings have indeed been high and rising, even prior to the current recession, making them major contributors to the total vacancy rate of downtown in general. All together, they constitute about 10% of downtown Worcester's total office space (Table 7).

**Table 7: Occupancy Rates for 332, 340 and 390 Main, 2001-2011**

|      | 332 Main | 340 Main | 390 Main | Total Available Square Feet | Total Vacant Square Feet |
|------|----------|----------|----------|-----------------------------|--------------------------|
| 2002 | 100%     | 78%      | 89%      | 453,000                     | 70,000                   |
| 2003 | 78%      | 72%      | 89%      | 467,699                     | 103,990                  |
| 2004 | 80%      | 78%      | 87%      | 467,699                     | 90,461                   |
| 2005 | 65%      | 84%      | 77%      | 440,000                     | 92,175                   |
| 2006 | 64%      | 72%      | 80%      | 440,000                     | 119,421                  |
| 2007 | 58%      | 63%      | 82%      | 440,000                     | 143,574                  |
| 2008 | 55%      | 61%      | 77%      | 440,000                     | 156,147                  |
| 2009 | 54%      | 61%      | 73%      | 440,000                     | 161,387                  |
| 2010 | 50%      | 61%      | 73%      | 440,000                     | 163,647                  |
| 2011 | 42%      | 59%      | 71%      | 440,000                     | 175,915                  |

Were these three properties 100% occupied, the total 2011 downtown office occupancy rate would increase by 5 percentage points, from 79% to 84%.

Much of downtown's building stock dates back to the first decades of the 20<sup>th</sup> century. The buildings in **Table 7** were originally built in 1906 (390 Main), 1930 (332 Main), and 1896 (340 Main). It should be acknowledged that the cost of maintenance and rehabilitation in these old buildings can be considerable. According to the owner of one large office building dating to this era, annual upkeep requires the expenditure of over a million dollars. Investment in 340 Main, by contrast, has totaled only about \$500,000 over the last decade.<sup>7</sup>

In a move hailed by city government as a "game-changer" that will strengthen the prospects of downtown revitalization, 390 Main changed ownership in late October 2011.<sup>8</sup> However, inadequate reinvestment in old buildings will likely continue to remain a main cause of persistent vacancy in downtown Worcester.<sup>9</sup>

There is cause for both optimism and pessimism about downtown. The office vacancy rate has been on the rise in downtown over the past five years. And yet, at present, Worcester's occupancy rate does not appear to be lower than many other markets in the state and other cities. Notwithstanding the continued uncertainty in the state and national economies, the several major projects currently underway downtown (**Table 1**) demonstrate the degree of confidence that at least some institutions and businesses possess about downtown Worcester's prospects.

<sup>1</sup> 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. Downtown represents about 30% of the City's commercial tax base, and about 9% of its overall annual tax levy (Source: City Assessor's Office).

<sup>2</sup> While medical office space is included, not included are medical practice space, government buildings, and retail space.

<sup>3</sup> The vacancy rate represents the amount of space that is vacant and available for lease divided by the total square footage of office space.

<sup>4</sup> Rental rates may or may not include utilities.

<sup>5</sup> David Riley, "Vacancy rate in area offices well above the norm," *Metrowest Daily News*, September 18, 2011.

<sup>6</sup> Shaun Sutner, "Property problems," *Worcester Telegram and Gazette*, September 25, 2011.

<sup>7</sup> "Property problems."

<sup>8</sup> Rick Saia, "Commerce Bank Buys is Headquarters," *Worcester Business Journal*, October 25, 2011.

<sup>9</sup> "Property problems."