



The Research Bureau

Downtown Office Occupancy Report

A survey of office buildings in Worcester's Central Business District

Publication 20-02

February 2020

Research in the Public Interest

Worcester Regional Research Bureau, Inc.

500 Salisbury Street, Worcester, MA 01609 • 508-799-7169 • www.wrrb.org

Introduction

Of all the factors that influence the business climate in Worcester's Central Business District (CBD), the office space market is one of the most basic, but also one of the most important. The physical locations available are critical both in attracting and retaining employers, and in measuring the health of the CBD. This report contains an analysis of key CBD properties containing some amount of office space, with information including the total amount of office space in the building, the amount of vacant office space, the rental rate per square foot, the availability of parking and other details. The data, both aggregated and in a sample chosen by subject matter experts, shows a CBD office space market with higher demand than in The Research Bureau's last survey, but still with capacity for more incoming businesses.

The last office space vacancy report highlighted the office space market's decline with the ongoing recession, but with occupancy up since 2011 this report suggests that Worcester has experienced positive growth since the recession, and the rent cost floor for all three classes raised slightly since the 2011 report. Leasing rates for surveyed office space range from about \$12.50 to \$17.50 for Class C space, \$17.50 to \$21.50 for Class B space, and \$22.50 to \$28.50 for Class A space.

Downtown redevelopment has been a public policy initiative for decades in Worcester. As a

result, the most popular industries in the CBD are arts, entertainment and recreation and accommodation and food services. Worcester's CBD is also home to many jobs in the information, finance and insurance, real estate, management, and professional services industries (See Table 2). As the real estate market soars in Boston, small and medium sized businesses in these industries are looking outside of the central Boston market for office spaces to accommodate their growth. Measuring the availability and attractiveness of office spaces in Worcester's CBD will highlight what Worcester has to offer businesses looking to relocate or take their first steps, and where developers may want to focus their investments in efforts to continue bringing in new businesses. Worcester's CBD has the opportunity to attract maturing companies in an evolving economy.

As in past years of the WRRB's office space market report, a sample of prominent office buildings in the CBD is included to give a more granular picture of available space, prices, and other characteristics (see Table 1). The selected properties, chosen in consultation with subject matter experts in economic development and the broker community, represent Class A properties and other notable office space. Only general office space was selected—not, for example, medical office space. Selections were restricted to the CBD, although there are other prominent office buildings in Worcester farther away from the city core. Information was gathered from brokers and CoStar, while images were taken from Google Street View.

Map 1: Worcester's Central Business District



Source: Worcester GIS Open Data. "Census Tracts 2010". December 31st, 2019. gis.worcesterma.gov.

Table 1: Office Space Sample

Property	Picture	Year Built	Floors	Total Office Space (SF)	Office Space Vacant (SF)	Rental per SF	Parking Details	Type of Lease	Broker
446 Main Street		1973	24	244,000	34,358	\$27.50	660 covered spaces available	net electric	Kelleher & Sadowsky
44 Portland Street		1935	7	87,000	4,500	\$25	44 spaces available	net electric	Printers Building Trust
100 Front Street		1970	20	252,530	14,971	\$24	garaged parking available	net electric	Kelleher & Sadowsky
120 Front Street		1970	8	169,396	17,449	\$24	garaged parking available	net electric	Kelleher & Sadowsky
421-427 Main Street		1930	4	19,024	4,765	\$22.50	10 offsite garage spaces	net electric	Kelleher & Sadowsky
1 Mercantile Street		2012	7	201,467	28,571	\$22-\$27	840 spaces	net electric	Kelleher & Sadowsky
10 Chestnut Street		1991	10	183,254	13,183	\$22	2 spaces per 1,000 SF	net electric	Kelleher & Sadowsky
370 Main Street		1971	13	186,000	56,659	\$21	surface parking available for lease	net electric	Kelleher & Sadowsky
303-311 Main Street		1930	5	78,626	3,500	\$21	220 surface spaces available	gross net electric	NAI Glickman Kovago & Jacobs
1 Exchange Place		1900	4	60,000	9,340	\$21	on street	gross net electric	NAI Glickman Kovago & Jacobs
144-148 Main Street		1885	5	21,775	905	\$20	2 parking spaces available	modified gross	Israel Real Estate Co.
10 Mechanic Street		1984	5	50,000	0	\$20	on street	net electric	Kelleher & Sadowsky

Why is this important for Worcester?

The status of office occupancy is an important indication of economic health in Worcester. Higher occupancy rates indicate that the business and retail industries are strong, whereas comparatively lower occupancy rates over time may be indicative of a weakening market in the primary business center of the city. An Ohio State University study shows that active downtown business recruitment and retention are among the top indications of a successful CBD (“Central Business Districts: The Measure of Success”, 2011). By measuring office space occupancy the Research Bureau is creating data on business recruitment and retention, which can be tracked over many years. Ultimately these reports give interested parties one way of assessing the economic vitality of Worcester’s CBD.

In previous reports, the Research Bureau has noted the challenge urban flight has posed on urban geographies. However, since 2000, the increase in population of prime working age residents, residents 25-54 years old, has been the strongest in urban geographies across the nation (Pew Research Center, 2018). While the same population also risen in suburban counties, when individual counties are analyzed, more than half (59 percent) proved to have less prime working

age residents since 2000 (Pew Research Center, 2018). For urban areas, only 29 percent of counties showed a decrease in prime working age residents (Pew Research Center, 2018). These findings suggest that the dramatic gaps in working resident retention may be shortening between urban and suburban spaces. The prime working age resident is also the resident who we expect to live, work and spend their money in a community. There may be a great opportunity for Worcester to attract some of these types of employees and business leaders.

Finally, the unemployment rate in the Worcester metropolitan area averages 3.4 percent over the past year and has shown a downward trend since 2011, while total employment has risen (see Graph 1). The Worcester unemployment rate for August 2019 was 0.5 percent lower than the national unemployment rate and 0.3 percent higher than the state of Massachusetts, according to the U.S. Bureau of Labor Statistics. If both employment and office space occupancy are growing, the implication could be growth of existing businesses in Worcester, to include more jobs and offices, or the attraction of new businesses to Worcester’s CBD. Both contribute to a healthier economy and more opportunity for residents including new jobs, higher wages, and new services provided by the business and retail sectors.

Graph 1: Worcester Metro Area Employment



As of August 2019. Source: U.S. Bureau of Labor Statistics

Development

Many of the broad changes to the office space market that are visible in the data of this report are as a result of action by the Executive Office of Economic Development in Worcester. The office works to assist in identifying sites for redevelopment, securing financing, and obtaining permits with the goal of helping to create business and residential growth in Worcester (Executive Office of Economic Development, 2019), helping to lead redevelopment projects that have had significant implications on the office space market since the publication of the previous office space occupancy report in 2011.

One major project, CitySquare, reflects a collaboration between the City of Worcester, the State of Massachusetts and private redevelopment firms. According to the City's development overview, it is a \$565 million multi-phased project in the heart of the CBD. The first building to open, in 2012, at CitySquare was the \$70 million Unum office building with 214,000 square feet of office space and a 860-car parking garage. Saint Vincent Hospital also invested \$30 million in a 66,000 square foot campus expansion to include a new cancer and wellness center in 2012. The Worcester Common Garage, a two-story 550-car underground parking garage is open to the public and was funded by the City of Worcester and the Commonwealth of Massachusetts. Still in development is the One City Square building which is slated to include about 200,000 square feet of Class A building space (Jones Lang LaSalle, 2018).

On the same block as CitySquare is Mercantile Center, a \$75 million purchase and renovation project. According to the property overview, renovations were completed on 100 Front St. and 120 Front St., which house mostly office space. UMass Memorial Health Care has leased roughly 75,000 square feet of the total 640,700 square feet of mixed-use office and retail space available at Mercantile Center according to the city's Downtown Urban Revitalization Plan report. With their relocation and expansion into Mercantile Center, UMass Memorial Health Care added additional jobs to their employment force. Clearly, a good faith effort has been made on both

the development and redevelopment sides of the office space market.

In addition to residential and office space projects, the CBD has seen an increased interest in developers placing amenities like restaurants and coffeeshops downtown, especially well-known chain businesses. Existing spaces like the Fuel America coffeeshop, as well as planned projects like Ruth's Chris Steakhouse, are also important in attracting and retaining businesses, according to local experts. As companies consider moving away from suburban office parks and into urban locations, the density of amenities offered can be a major factor for some organizations, as it is seen as a benefit to employee happiness.

These development efforts are not only focused on attracting large scale multi-million dollar businesses, but are also focused on other things. Some projects have also been made to include space for the increasingly popular start-up market. As part of the Downtown Urban

Table 2: Industries by Percent of Worcester Area Population Employed

Educational services, and health care and social assistance	30%
Retail trade	15%
Arts, entertainment, and recreation, and accommodation and food services	10%
Transportation and warehousing	8%
Finance and insurance, and real estate and rental and leasing	8%
Professional, scientific, and management, and administrative and waste management services	8%
Other services, except public administration	7%
Wholesale trade	3%
Information	2%
Construction	1%
Public administration	1%
Agriculture, forestry, fishing and hunting, and mining	0%

Source: 2017 5-Year American Community Survey.

Revitalization Plan, in the Spring of 2015, the Worcester IdeaLab moved into the former Telegram & Gazette building at 20 Franklin Street. The IdeaLab aims to provide a low cost incubator for start ups with the potential to rent office space in the T&G building once the businesses can stand on their own. The Innovation Center was funded by a combination of contributions from the Worcester Business Development Corporation, federal grant monies, and donations from various foundations and city banks. Here the investment of local money has been contributed to the mission on offering opportunity to talented and ambitious Worcester residents.

Conclusion

Improvements in the Worcester office space market are not just the result of private development and market forces. Public policy laid the groundwork for the attraction and retention of the many offices and companies calling Worcester home, many of which were innovative steps from a local government looking to proactively spur development in the CBD.

In 2005, at the beginning of the CitySquare project, the area became the first in the state to be named a District Improvement Financing District, allowing increased tax revenue from the project to fund the infrastructure necessary to uphold the city's end of the public-private partnership. A similar program exists for the area around the DCU Center, using food and room tax surcharges to fund improvement to that public building, and a Business Improvement District created in 2018 by a vote of downtown property owners collects additional surcharges to fund cleanup efforts and other aesthetic improvements to the CBD.

Other overlays also attempt to uplift downtown. In 2016, the state approved Worcester's Urban Revitalization Plan, giving local officials the ability to use eminent domain to seize properties to reverse trends of disinvestment, with the goal being to use it as a last resort to spur owners to make improvements and invest in renovations. The Theater District encompasses some of the

CBD in an effort to boost the area's cultural and entertainment options, whether they be well-established like the Hanover Theatre or the new Worcester PopUp and upcoming Black Box Theater.

While none of these efforts are direct investments in recruiting or retaining businesses, they all exist to mold the downtown into a place that employers would feel comfortable locating to, and that their employees would enjoy occupying, and are thus very relevant to the Worcester office space market. Private industry cannot effectively reshape a neighborhood without cooperation from those in government, and Worcester has used public policy tools and programs to great effect when it comes to creating a fertile market for office buildings and associated businesses.



Worcester Regional Research Bureau, Inc.

Officers & Executive Committee

Chair of the Board:

Deborah Penta

Vice Chair:

Francis Madigan, III

Treasurer:

George W. Tetler III, Esq.

Clerk:

Demitrios M. Moschos, Esq.

Vice President for Finance:

Richard F. Powell, CPA

Assistant Clerk:

Michael Mulrain

Executive Committee Members:

Abraham W. Haddad, D.M.D.

Paul Kelly

Susan Mailman

Todd Rodman, Esq.

John J. Spillane, Esq.

Eric K. Torkornoo

Janice B. Yost, Ed.D.

Board of Directors

Kola Akindele, JD

Peter Alden

Michael P. Angelini, Esq.,

Paul Belsito

Janet Birbara

Edward S. Borden

Philip L. Boroughs, S.J.

Roberta Brien

Brian J. Buckley, Esq.

Francesco C. Cesareo, Ph.D.

J. Christopher Collins, Esq.

Michael Crawford

Nancy P. Crimmin, Ed.D.

Kathryn Crockett

David Crouch

Ellen Cummings

James Curran

Jill Dagilis

Andrew Davis

Christine Dominick

Donald Doyle

Ellen S. Dunlap

Sandra L. Dunn

Susan West Engelkemeyer, Ph.D.

Aleta Fazzone

Mitchell Feldman

Allen W. Fletcher

David Fort

Michael J. Garand

Tim Garvin

Joel N. Greenberg

J. Michael Grenon

Kurt Isaacson

Will Kelleher

Richard B. Kennedy

Stephen Knox

Geoff Kramer

Cheryl Lapriore

Laurie A. Leshin, Ph.D.

Karen E. Ludington, Esq.

Barry Maloney

Edward F. Manzi, Jr.

Mary Jo Marión

Samantha McDonald, Esq.

Neil D. McDonough

Kate McEvoy

Thomas McGregor

Joseph McManus

Martin D. McNamara

Satya Mitra, Ph.D.

Robert J. Morton

Timothy P. Murray, Esq.

James D. O'Brien, Jr., Esq.

Michael V. O'Brien

Andrew B. O'Donnell, Esq.

JoAnne O'Leary

Lisa Olson, Ph.D.

Deborah Packard

Anthony Pasquale

Luis Pedraja, Ph.D.

Sam S. Pepper, Jr.

Lisa Perrin

Sherri Pitcher

Christopher M. Powers

John Prankevicius

Paul Provost

David Przesiek

Marcy Reed

Mary Lou Retelle

Mary Craig Ritter

K. Michael Robbins

Joseph Salois

Anthony J. Salvidio, II

J. Robert Seder, Esq.

Kate Sharry

Philip O. Shwachman

Troy Siebels

Michael Sleeper

Peter R. Stanton

John C. Stowe

Joseph Sullivan, Esq.

Peter Sullivan

Polly A. Tatum, Esq.

Ann K. Tripp

Jon Weaver

Gayle Flanders Weiss, Esq.

Staff

Executive Director & CEO

Paul F. Matthews

Director of Programs & Operations:

Eric R. Kneeland

Research Associate:

Thomas J. Quinn

Research Intern:

Sara Conroy

