

TECH FALLOUT LOWERS COMMERCIAL RENTS

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Commercial real estate is feeling its own technology hangover.

From Waltham to Marlborough to Kendall Square in Cambridge, scores of buildings once occupied by dot-coms or software companies stand vacant - a space glut that is the major cause of declining commercial rents in Greater Boston. On average, rates for Class A commercial office space in Greater Boston fell 15 percent to \$36.52 per square foot as of Dec. 31, from \$43 per square foot a year earlier, according to a new analysis released by real-estate management company Meredith & Grew Inc.

The decline isn't surprising given the general economic slowdown and rising unemployment, both in the region and nationally. And it is good news for tenants seeking cheaper digs.

But in addition to the macroeconomic factors, a major reason for the drop in rents is overexpansion by technology companies, many of which are now looking to sublease the empty floors they had once reserved for growth.

Meredith & Grew estimates that of a total suburban office market of 110 million square feet of space, about 16 percent stands vacant, up from 4.5 percent a year ago. Further, about 60 percent of the vacancies are spaces technology companies once occupied, or planned to, before pulling back.

"These are companies that are hurting, they signed the space but they don't have the people for it like they expected," said James Elcock, a senior vice president at Meredith & Grew.

Executives at another big real-estate services firm, Spaulding & Slye, echo that view.

"There was a mentality that was headcount-driven, with the idea that you had to grow and be ready for it," says Alex Dauria, a Spaulding & Slye senior vice president. "At the real-estate level, if the person needed 5,000 square feet, they took 10,000."

No longer. In Waltham, optical communications firm GiantLoop Network Inc. has thousands of square feet of property available to sublease.

"This is balancing where the business is with where the economy is," said a spokesman, Jon Oltsik.

In Newton, the Web software company Macromedia just signed two deals to sublease 110,000 square feet of the 348,000 square feet it occupies at 275 Grove St., according to consultant Roy L. **Hirshland**, president of T3 Reality Advisors.

Hirshland says the current climate is much different, and in many ways less severe, than the real-estate glut of 10 years ago that left major construction projects standing unfinished for years.

"Then, the vacancies in real estate were caused by overbuilding in the development community," he said. "This particular real estate market is caused by the retrenchments of tenants."

Despite all the subleasing activity, real estate in Greater Boston remains relatively expensive. A recent study by Princeton, N.J., relocation consultant John Boyd, for instance, ranked Boston the fourth-most expensive area among major locations for technology companies, a ranking driven largely by real-estate costs.

Larger technology companies are also putting space in their buildings up for grabs. Data storage equipment maker EMC Corp., which is cutting more than 20 percent of its peak work force, says it has subleased 15,000 square feet of its office space along Interstate 495. In Marlborough, networking-equipment maker 3Com Corp. is looking for tenants for parts of a 550,000-square-foot, four-building office park. It finished building the complex in 1999 but now uses only a third of it.

And in Andover, online venture firm CMGI has laid off hundreds of employees and reduced the space of its headquarters office to about 300,000 square feet from 400,000 feet in the Brickstone Square complex, according to landlord Martin Spagat, president of Brickstone Properties Inc.

In Cambridge, Meredith & Grew's Elcock says Internet consultant Razorfish Inc. has had trouble finding a tenant for an office at 101 Main St.

"We've gotten a lot of resistance from people who don't want to sublease from Razorfish," he said, because "there's no comfort level" about the company, a one-time high-flier whose stock closed at 19 cents a share on Friday. (A spokesman for New York-based Razorfish didn't return calls seeking comment.)

Some developers say they're not worried by the glut of space, since they expect most of it will disappear as the economy turns up later this year. Congress Group Ventures, the developer of a project at 33 Arch St. in Boston, hasn't signed up any tenants yet, but its executives say they aren't worried since it won't be ready for occupancy until early 2004.

"We're in no hurry to sign leases within what people may perceive as being today's rents," said Gordon Claggett, a senior executive at the company. "We believe the market's going to move in our direction."