NEWS FRONT **Northeast**

New York and Boston Lead Hotel Revival

NEW YORK CITY—Hotel activity across the Northeast is heating up, particularly in New York City and Boston, which have seen a number of notable transactions recently, as investors take note of the potential in this sector. Hotels, long neglected, are being bought up and infused with capital for a much-needed dusting off.

"Hotels have become quite desirable because of the way that they operate," says Daniel Lesser, president and CEO of LW Hospitality Advisors. "They're more than just real estate—they're going business concerns." Lesser cites several recent deals in the New York area as examples, including Host Hotels & Resorts' $313-million purchase of the 773-key New York Helmsley Hotel at 212 E. 42nd St.

Lesser says that buyers like Host Hotels, Hersha Hospitality Management and LaSalle Hotel Properties understand the hospitality space and represent the type of sophisticated investors looking for deals in the current economic climate.

Jared Kelso, senior director in the Global Hospitality Group at Cushman & Wakefield Sonnenblick-Goldman, says that there is a lot of capital floating around, available to be invested. "There is no question that New York City numbers one, two and three on most public companies' acquisition target lists," he says. "I would put DC and Boston as the next two top cities that people want to be in." Boston's hotel market, Kelso says, is driven by the abundance of universities in the area, biotech and pharma and, more surprisingly, sports and leisure.

As for the capital available for investment in hotels in the Northeast, a lot of it is focused on investment opportunities in New York, where, during the downturn, occupancy percentages bottomed out around the low to mid 70s. Kelso says that "very sophisticated companies will reset rates on an hourly basis," a practice that, he says, helped to drive a faster recovery in the hotel market.

The volume moved in the Northeast recently is staggering—some $907 million in transactions were reported for the first quarter of 2011, according to Real Capital Analytics' Hotel Quarter in Review for Q1 2011. The report lists Host Hotels as the top buyer in the sector for the quarter, with its purchase of the New York Helmsley coming in as the top purchase in the Northeast. Boston saw the second highest volume of transactions in the Northeast for Q1 2011, with $116 million in hotel deals done.

"We're really still just at the start of a period of improved performance for the hotel sector," Kelso says. "We're very bullish about the hotel sector for the next several years."—***Carl Gaines***

Boston Office: Still a Tenant's Market

The commercial real estate recovery is uneven across Boston's office markets. For the most part, vacancies have peaked and rents have bottomed in core office markets. However, secondary and tertiary markets continue to struggle with high vacancy and depressed rental rates.

When comparing year-over-year performance, the Back Bay emerged as the premier CBD submarket in Boston. Vacancy has peaked in the Financial District, which witnessed the last new construction delivery in this cycle. Several large multi-national technology, life science and pharmaceutical firms continued to drive tenant demand in Cambridge and have helped to keep fundamentals healthier than most of Greater Boston submarkets.

By Donald N. Noland Jr.

The strength of the recovery continues to be mixed across those submarkets. The 128 and 495 North markets posted the greatest absorption gains, while 128 West posted the greatest loss of occupied space year-to-date at 411,463 square feet. Core investment opportunities continue to garner high interest with 3.1 million square feet of closed sales through the first quarter versus 1.7 million square feet one year ago. In 2010, Cushman & Wakefield arranged the $930-million sale of the John Hancock Tower.

As fundamentals in the Back Bay grow stronger, a revival of the class A Financial District appears to be closer than the statistics indicate. The Back Bay's single-digit overall vacancy rate continued to tighten to 6.6%, representing a 6-percentage-point decline from one year ago, forcing direct asking rents up to $41.94 per square foot for all classes. Firms scouring this tenant-driven marketplace will be compelled to consider the Financial District as an alternative.

All of this bodes well for the stalled 9.2 million square feet of vacancy in the Financial District, where landlords face one of the highest vacancy rates in 20 years. Overall vacancy for all classes grew 4.7 percentage points year-over-year to 17.3%, and class A vacancy climbed 6.6 percentage points to 18.4% over the same period.

For the most part, vacancy is at its peak in this cycle, due in part to occupiers continuing to shed excess space and new construction coming online. Class A asking rates continued to climb, buoyed by several blocks of high-rise availabilities and the construction at Atlantic Wharf. Rental-rate appreciation will take hold in 2011, and will strengthen before vacancy returns closer to historic levels.

While Q1 office-market indicators do not demonstrate that a recovery is underway in Greater Boston, the five-year outlook is brighter. It is estimated that the jobs lost in the last recession will be made up by 2013. This will have a positive impact on office growth, but it will be at a slow pace.

The rate of the recovery in office-space growth will be dependent in part on how long it takes for employers to fill the empty desks left by the downsizing of the recession. Having said this, however, the Downtown markets are expected to absorb nearly three million square feet through 2015.

This will force vacancies into the single digits, approaching 6%, and in response asking rents will rise considerably. In the meantime, expect the tenant-driven market to continue in this year of transition.

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