

# Bloomberg

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## Boston Booms as Workers Say No to Suburbs: Real Estate



### Boston's Seaport District

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Developers and investors drawn to Boston's expanding life sciences and technology industry, along with a growing workforce of educated young adults, are fueling a boom in construction from the Seaport to downtown and Cambridge.

The South Boston waterfront was long a bleak area separated from the rest of the city by the Fort Point Channel, its docks and warehouses recalling a faded shipping past. Now, rechristened the Seaport district, construction cranes dot the landscape as builders put up high-end condominiums, offices and hotels in one of the biggest neighborhood transformations in Boston history.

"The waterfront is an overnight success that's taken nearly 30 years to come to fruition," said Brian Kavoogian, president and founder of Charles River Realty Investors LLC, which has developed or acquired more than 20 million square feet (1.9 million square meters) of real estate in the Boston metropolitan area. "It finally reached a tipping point."

Boston's real estate market, often overshadowed by the skyscrapers of New York and government-fueled growth in Washington, is seeing a boom in construction as developers financed with cheap debt seek to profit from a growing

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workforce of educated young adults and strength in the technology and life-sciences industries. The office-vacancy rate is among the lowest of major U.S. markets and tenants are occupying new space at almost triple the national average.

Construction spending in Boston increased an estimated 37 percent in the year ended June 30 to \$3.83 billion, the most since 2008, according to the mayor's office. The market is hot enough that some developers are considering building offices without having landed anchor tenants.

## Largest Project

Work is planned or already underway on the \$620 million redevelopment of the original Filene's department store property in Downtown Crossing, a \$200 million office tower for State Street Corp. and the \$800 million headquarters in the Seaport area for Vertex Pharmaceuticals Inc. -- at 1.1 million square feet, the nation's largest privately funded office-construction project.

"You have a city that has biotech and other thriving industries, and some big-name financial services," said John Garth, managing director at [Pembroke Capital Management LLC](#), a New York-based real estate investor looking to finance



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apartment construction in Boston. "It's a huge draw for young people, and that creates lots of demand for rental apartments as well as new office space and other construction."

The fourth-quarter office-vacancy rate in the Boston metro area was 10.9 percent, ranking it among the best-performing big markets in the country and less than the 15.4 percent nationwide average, according to brokerage CBRE Group Inc. Net absorption -- the increase in occupied space -- was 2.8 percent

In 2010, Boston ranked No. 1 among the 25 largest cities in the U.S. as having the biggest population of 20 to 34-year olds, at 35 percent, according to a January report by the mayor's office.

in 2012, compared with 1 percent nationwide. That's helping to spur building while construction in much of the rest of the country stagnates, said Arthur Jones, senior managing economist at the Los Angeles-based company.

## New Cycle

"The fundamentals in Boston are favoring the move into another construction cycle," he said. "Vacancies are low, rents are improving and job growth is steady."

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Boston has attracted major office owners including Tishman Speyer Properties LP and Blackstone Group LP. The largest U.S. office real estate investment trust, [Boston Properties Inc. \(BXP\)](#), is based in the city and owns marquee properties such as John Hancock Tower and Prudential Center.

Greater Boston is home to [50 universities](#) and colleges, among them Harvard University and Massachusetts Institute of Technology, which provide a pipeline for graduates into the job market. In 2010, Boston had the biggest ratio of 20- to 34-year-olds among the 25 largest cities in the U.S., at 35 percent, according to a report from the mayor's office.

## Job Growth

Boston's cumulative job growth, led by scientific and technical services, is projected to be 7.9 percent from 2011 to 2016, exceeding the state's 7.4 percent, according to the report. The city is home to financial firms such as

Fidelity Investments, the second-biggest U.S. mutual-fund company, and State Street, the third-largest custody bank. Neighboring Cambridge, which has also seen a spike in new development, hosts employers such as biotechnology company [Biogen Idec Inc. \(BIIB\)](#) and technology giants Amazon.com Inc., Google Inc. and Microsoft Corp., said Peter Meade, head of the Boston Redevelopment Authority.

"In the last 24 months, suburban tech firms have been looking to relocate into town," said Andrew Hoar, president and co-managing partner at CBRE/New England, a joint venture partner with CBRE. "For many other markets it's the other way around. The young graduates in this town don't want to commute."

## New Opportunities

The race to catch up with the city's growth is evident in the Seaport area, where about 3 million square feet of buildings is under construction, according to the redevelopment authority. The waterfront neighborhood, for decades isolated by Fort Point Channel and an elevated stretch of Interstate 93, has become more accessible after the Central



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Artery/Tunnel Project rerouted the highway below ground. Known as the Big Dig, the 15-year-plus project was [completed](#) in 2007 after being plagued by delays and cost overruns.

“The opening up of areas like the waterfront is expanding opportunities to have developments occur in a way we have not seen in many years,” Joseph Fallon, founder and chief executive officer of [Fallon Co.](#), developer of the [Vertex \(VRTX\)](#) buildings, said in an interview at his office in the Seaport, behind him the expansive view of Boston Harbor -- and cranes.

## Fan Pier

The neighborhood, long targeted for growth, was slow to develop. Fidelity Investments and Drew Co. built the Seaport World Trade Center exhibition center there in 1986, joining [Anthony’s Pier 4](#) restaurant, a local landmark. A larger-scale overhaul was hampered by the lack of infrastructure, a common vision for the area and economic downturns, according to the redevelopment authority’s deputy director for planning, Richard McGuinness. Development of the district has been a top priority of Mayor [Thomas Menino](#) during his almost 20 years in office.

Fallon plans to complete the two Vertex structures in the waterfront area by the end of this year and has an adjacent parcel that may accommodate a third building. It will build a residential project if Vertex doesn’t exercise the option to use the land, Fallon said. The developer’s other projects in the Seaport neighborhood include a condo building and a 360,000- square-foot office for law firm Goodwin Procter LLP, both of which will break ground this year.

## Exciting Neighborhood

Vertex, which has added more than 500 employees in Massachusetts in the past five years, is currently based in Cambridge. The company was attracted to the Seaport’s proximity to Logan Airport and different types of transportation, as well as its mix of new businesses settling into the neighborhood, said Zach Barber, a spokesman for the drugmaker.

“The site and the neighborhood was exciting for us to be an anchor tenant in,” Barber said.

New restaurants are popping up, such as Blue Dragon, an Asian eatery from Ming Tsai, host of the PBS cooking show “Simply Ming.” The outdoor Bank of America Pavilion showcases music events, while a convention center, completed in 2004, draws a regular stream of visitors, as does the [Institute of Contemporary Art](#), which relocated from the Back Bay in 2006.

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[Drew Co.](#) is building Waterside Place, a \$120 million mixed-use project in the Seaport area that it expects to [complete](#) by year-end. It will include apartments, offices for startup companies and ground-floor retail, according to the authority.

## Skanska Plans

Skanska USA, the American division of Stockholm-based construction and engineering firm [Skanska AB \(SKAB\)](#), in December acquired a parcel of land in the Seaport district from [Morgan Stanley \(MS\)](#) for \$33 million and is planning an office building to accommodate spill-over demand from low-vacancy areas like East Cambridge, said Shawn Hurley, executive vice president. The company would build even without having a tenant signed first, known as speculative construction.

“At this point we’d go ahead with a spec project,” Hurley said in an interview at Skanska’s Boston office. “The office market in East Cambridge is very healthy and has very little vacancy. This area becomes an alternative.”

The risk of the accelerating growth in areas like the Seaport and Cambridge is that rising rents may drive tenants back into the suburbs, according to a fourth-quarter [report](#) by Cassidy Turley. In the Seaport, office rents for top-quality buildings have risen to \$54 a square foot from \$48 a year ago, putting rates on par with the historic Back Bay area, the brokerage said.

## Less Affordable

“While tech companies and startups are primarily responsible for South Boston’s renaissance, we are watching to see what happens when their leases are up for renewal,” Cassidy Turley said. “The Seaport may no longer be the affordable option it was even just 18 months ago.”

The construction isn’t solely in the Seaport. The [Longwood Medical and Academic Area](#) also has seen an increase in construction, driven by the expansion of medical facilities in the neighborhood. A partnership headed by local builder National Development [broke ground](#) in June on the \$350 million Longwood Center, a research and development center with Dana-Farber Cancer Institute as anchor tenant.

New York-based [AREA Property Partners LP](#) and CV Properties LLC of Southport, Connecticut, are building One Channel Center, the 500,000-square-foot office for State Street in the Seaport neighborhood. AREA expects to complete the project by July 2014, according to Chief Executive Officer Lee Neibart.

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## Downtown Crossing

[Millennium Partners](#) is slated to redevelop the Filene's department store property in Boston's Downtown Crossing into an office and retail structure and build a new mixed-use tower with about 500 residential units next to it. The New York-based company took over the project from [Vornado Realty Trust \(VNO\)](#) in 2012 after it had stalled for four years, and plans to start construction "before the summer," according to Anthony Pangaro, who is overseeing the project for Millennium.

"People want to be in diverse neighborhoods, with lots of activity," Pangaro said in his downtown office, filled with renderings of the project and maps of the area. "The waterfront is one of those areas, and downtown is incredibly diverse."

Pangaro said he is in talks with possible tenants in the "creative sector" for the 150,000 square feet of office space, which in turn would provide for construction funding for the rest of the project. He would proceed without a committed tenant, he said.

Companies are eager to finance new projects, according to Pembroke's Garth. His firm, which last year spent about \$140 million to finance 16 real estate projects in the U.S., is actively seeking multifamily construction deals in Boston.

"A fully entitled development in this city tends to attract a lot of interest from potential lenders, including first-mortgage money and mezzanine debt, because of the strong and steady demand," he said. "The bottom line is lenders feel safe lending into this market."

John Drew, founder of Drew Co., said "the biggest national institutions" are looking to invest in Boston. He has been involved in projects in the city for 30 years.

"I've been through a few cycles and the robustness of the recovery and construction activity here today is more than I have seen in the past," he said. "It's all this money following projects here. The access to capital here today is pretty phenomenal."