

“Big Dig” Done, Office Developments Rise

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By Maura Webber Sadovi

With rents rising and the “Big Dig” finally completed after 16 years, Boston is seeing a surge of office development.

Average metro wide annual office completions are expected to jump to 3.3 million square feet in 2009 and 2010 from two million this year, according to Property & Portfolio Research Inc., a Boston-based real-estate research firm. Even more remarkable several of the new projects are “speculative,” meaning that developers have no tenant in hand. The city hasn’t had any such projects started since rents cratered after the tech but of 2001.

Speculative construction is a sign of market confidence. But it could create problems if the national recession that many are predicting boosts vacancies and decreases rents.

For now, Boston office developers are emboldened by demand from technology and professional services companies that have helped push rents up at a double-digit-percentage pace. Many are banking on a surge in accounting firms and other tenants looking to lease large spaces in 2009-2010 and beyond, according to Lauren C. Picariello, research manager for Jones Lang LaSalle in Boston.

Average Boston-area rents rose 10.6% to about \$28 per square foot in the third quarter from a year earlier, PPR says. The city, which anchors a region that is home to about 4.9 million people, has seen its annual pace of job growth rise to 1% in November from a year earlier, compared with an average annual decline of 0.2% from 2002 to 2006, according to the Bureau of Labor Statistics and Moody’s Economy.com.

“The timing is right,” says Joseph F. Fallon, chief executive and president of the Fallon Co., a Boston-based developer that also built the Westin Boston Waterfront Hotel. Fallon is building a spec 500,000-square-foot office building that is part of a larger mixed-use development called Fan Pier on the South Boston waterfront. Over in the financial district, Dallas-based Lincoln Property Co. is building the 12-story 220,000-square-foot Two Financial Center without any preleasing. Lincoln plans to complete it in 2009.

By the Numbers

	Third Quarter	
Boston Metro	2007	2006
Office vacancy	17%	19.4%
Avg. rent/s.f.	\$28.17	\$25.46
Warehouse vacancy	12.8%	13.8%
Avg. rent/s.f.	\$7.33	\$7.06

Retail econ. vacancy	10.2%	10.1%
Avg. rent/s.f.	\$19.89	\$19.51
Median home price	\$414,700	\$412,400

Source: Property & Portfolio Research Inc.; Nat. Assn. of Realtors

Moreover, a number of neighborhoods are benefiting from the \$15 million Big Dig roadway project that unsnarled many city streets and added a series of parks where an elevated highway once stood.

The Big Dig has helped open South Boston's once-industrial waterfront once stood.

The Big Dig has helped open South Boston's once-industrial waterfront to development by making it easier to reach and more appealing. The 2003 opening of the I-90 connector tunnel, part of the Big Dig, improved the area's access to both downtown and Logan International Airport. That was followed by the 2004 opening of the Boston Convention and Exhibition Center in the waterfront area.

Such public investments followed pioneering office-building development in the 1990s. Together, they've turned the area into a recognized up-and-coming address, Mr. Fallon says. An estimated two million square feet of space is under construction in the area now. An additional 18 million square feet—a mix of office, residential, retail and hotel—is planned in the next 20 years, according to Kairos Shen, director of planning for the Boston Redevelopment Authority.

Indeed, South Boston's waterfront might even one day count the city's biggest boss among its tenants. In about four years, Boston Mayor Thomas M. Menino says he would like to see city hall moved from its current 1960s-era landmark building to a waterfront parcel already owned by the city. The move would be part of his push to bring city services to neighborhoods and to ensure a vibrant mix of civic and commercial uses on the emerging waterfront. "I don't just want tall buildings there," says Mr. Menino.