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Boston commercial real estate market is booming, unlike other markets in the rest of the country

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Boston's commercial real estate market is in a perfect storm in reverse. The sun is shining, flowers are blooming and soon the shovels will be hitting the ground, assuming that many of the projects proposed for the city move forward.

The confluence of circumstances creating this perfect building environment includes:

* Liquidity. Lenders are lending again, at least for Boston projects.

* Proposed and new projects. Many projects that were put on hold when the financial crisis began are now moving forward.

* Low interest rates. Interest rates have been low for several years now, but low rates are meaningless when lenders are reluctant to lend.

* A positive attitude. In the commercial real estate industry, when new projects begin, it sparks additional growth. Given the long turnaround time for a development project, no one wants to be the last in the queue.

Economy a Concern

These positives are creating momentum throughout the market, although potential obstacles should also be noted. The greatest concern, naturally, is the economy. Although signs of recovery continue, so do signs that the U.S. may be headed into another recession.

Commercial real estate is a risky venture in any economy, given the amount of money involved, the regulatory environment and the long timeline before a return on investment begins. Another recession would make Boston development too risky and lenders would stop lending. Without liquidity, there is no development.

Uncertainties also remain over the continuing impact of Europe's sovereign debt crisis, this year's elections and the approaching "fiscal cliff," the combination of tax hikes and federal spending cuts scheduled to take place at the end of the year.

Many area banks, such as Citizen's Bank and Sovereign Bank, are owned by European parent companies and many U.S. banks have invested in Europe. European banks need to hold enough money to meet their capital ratio requirements, so liquidity could become locked up again. U.S. banks have less exposure, but are in no position to meet all of the lending demand being generated.

Conversely, the sovereign debt crisis will keep interest rates low, making borrowing cheap for developers able to find willing lenders.

The "fiscal cliff" may have little direct impact on Boston development, as institutional investors that fund development will generally not be affected by rising taxes. The automatic cuts in the federal budget scheduled to take place amount to about $120 billion a year for 10 years. An across-the-board cut would have some impact on the Massachusetts economy, but it likely would

not be of major significance.
The greater danger is that the fiscal cliff could damage the investor psyche, as some may interpret it as representing Congressional inability to control the federal debt.
Political obstacles are another problem. Developer Don Chiofaro's Aquarium Place project, which would replace a parking garage with a mixed-use building up to 625 feet high met with resistance from mayor Thomas Menino, who wants to restrict development in that prime location to 200 feet in height.
That difference of more than 400 feet represents a great deal of potentially lost revenue and has, at best, stalled development there.

Moving Forward

These potential negatives aside, plenty of projects are moving forward.
The Boston Seaport Innovation District, which is attracting billions of dollars in funding, is the catalyst for much of Boston's development. Projects there range from a $5.5 million innovation center to an $800 million campus being built by Vertex Pharmaceuticals Inc.
Another project that appears to be moving forward is Fenway Center, a $450 million mixed-use complex being developed by John Rosenthal that would be built over the Massachusetts Tpke. Separately, a Citizens Advisory Committee for the Back Bay has endorsed construction of a 32-story hotel, housing and shopping complex over the Mass. Pike.
In addition, Federal Realty Investment Trust has begun building the infrastructure for Assembly Row, a $1.5 billion mixed-use complex that would include up to 50 outlet stores, offices, hundreds of apartments, a new MBTA station and a park on the Mystic River. And The Saunders Hotel Group is part of a team seeking to build a hotel and residential complex at the former John Hancock Hotel & Conference Center.
These are just some of the projects being planned. Development remains stalled in the rest of the country, but should move forward soon, given the boom in Boston.

Donald Greenhalgh, CPA, is a partner in the real estate practice group at DiCicco, Gulman & Co., Woburn, Mass.