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## The Boston commercial real estate market after recovery from the "Great Recession"

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Boston is fortunate in having in our city CBRE's global chief economist, Ray Torto. When I asked for his prediction as to when our country will regain all jobs lost since the December 2007 start of the recession, I immediately received his answer:

"Q1-2, 2013 with Boston one or two quarters ahead"

The purpose of this article is to attach meaning to the recovery. As I will now describe, the recovery I believe will be unlike anything we have seen before.

### Foundation for Recovery

The foundation for recovery remains unchanged - job growth. It was jobs that grew after 1974-1976, 1981-1982, 1991-1992, 2001-2003 recessions and it will be jobs again in Q4 2012. That said, this time around there will be a strong overhang from the last 10 years.

That overhang will be the impact of excess spending in the United States. We are sitting with \$12 trillion of debt. We are sitting with federal tax revenues that can cover only 2/3's of the \$4 billion in operating costs.

"Stimulus" is a pet word. Just look at the stimulus that has take place since 2000:

- \* Huge supply of capital chasing real estate.
- \* An economy going gang-buster from 2004 to the end of 2007.
- \* Plentiful capital through the CMBS vehicle.

### History of Recoveries

If we study the history of past recoveries, they were created by sound, basic real estate economics. One new office job requires 250± s/f of space. One new industrial job requires 500± s/f of space. One new person can live in an apartment.

I saved Spaulding & Slye reports of the late 1970s and 1980s which tell an interesting story:

- \* Office vacancy rates - 1.5% to 11%
- \* Dramatic dwindling of first class supply
- \* Significant pre-leasing
- \* R&D/Industrial space - new active area
- \* "A 4% annual growth rate will reduce vacancy to nearly zero."

For the 1990s, when I shifted to the Whittier Partners Bottom Line Report, it mirrored readings from the 1970s and 1980s:

- \* Steady economic growth
- \* Build-to-suit construction
- \* Renovation of older buildings becoming a source of supply

In the 2000s, there is a different story:

- \* A huge supply of capital chasing real estate
  - \* Mezz debt - the new wave
  - \* 20% to 25% availability rates for office space
  - \* 34.4 million s/f more office construction that jobs can support
- Job growth, the cornerstone of the market, was forgotten.

#### A Look 10 Years Ahead

It is predicted that we will recover all jobs lost in Boston since Q4 2007 by Q4 2012, which will get us back to:

These are painfully high numbers.

Stop and go buttons will enter the real estate markets. Those with capital will pick off good deals from the excess of 2000s. The mushroom mooring holding back the economy will be the cost of government until GDP can grow to support.

With controls by a newly elected administration placed on government spending, improvement of the United States economics will begin.

New buildings that take place will have a high level of pre-leasing and high level of equity dollars. Between 2014 and 2016, the market will be flat and by 2017 to 2019, availability will be worked back down to 10% or less. Value will start to move back up to the 2007 era.

#### Conclusion

The Boston market after recovery will become a far more balanced market. We will be the beneficiary of being one of only five 24-hour cities in the United States. At the same time, we like the rest of the United States, will suffer from bad political decisions.

Real estate over the next 10 years will be risk/return driven. This time around, the tightened underwriting standards of the 1990s will not be loosened by a flood of capital.

Tightened controls will be placed on government. We have GDP of \$12.5 trillion and \$12 trillion of debt. A 1:1 ratio is unsustainable.

We have no choice but to cut the ratio of debt to GDP in half. As described at our 2010 CBRE kick-off meeting on January 6, 2010, we are in a heavy weight fight. We are 7-8 rounds into it with 7-8 rounds to go. If the stamina of 1776-1782 prevails, we will be the winners.

Webster Collins, MAI, CRE, FRICS is executive vice president/partner within CB Richard Ellis in their Valuation and Advisory Group, Boston. Market Statistics Q4 2007

Location    Space Availability

Boston Office    11.80%

Cambridge Office    11.80%

Suburban Office    18.60%

Overall    15.50%

General Industrial    14.30%

High Bay Industrial    14.10%

R&D Industrial    23.30%

Overall    15.80%

Source: CBRE

