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Boston now the Hub of the Universe for commercial real estate development

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Based on the amount of commercial development taking place in Boston, you might think it really is the "hub of the universe."

Consider, for example, that in just one week, the Boston Redevelopment Authority approved four new projects valued at nearly \$1.5 billion. That's more development in a week than many cities see in a year.

The new projects include the \$615 million Millennium Tower, which will include 600 residences and 200,000 s/f each of retail and office space; the \$500 million corporate headquarters for New Balance; 275 Albany St., a \$150 million, 19-story tower with 220 apartments and an 11-story, 325 room hotel, and 1282 Boylston St., a \$150 million, 348,000 s/f residential complex.

In all, the Boston Redevelopment Authority board approved 37 projects in 2012 representing an investment of \$3.4 billion.

In addition, law firm Goodwin Procter announced at the end of 2012 that it will anchor a new 500,000 s/f building in the eight-building Fan Pier complex, as Boston's Innovation District on the South Boston waterfront continues to attract its share of development and become one of the city's hottest areas for new businesses. And New Balance isn't the only shoe company investing in Boston; Converse announced a \$230 million redevelopment of Lovejoy Wharf.

Commercial development, office space, mixed use and residential development are all strong. Businesses in the life sciences and healthcare are developing in and around Boston, and some developers are even building office space on "spec," which has not happened in Boston for at least five years.

There's enough of a backlog of new projects that 2013 is guaranteed to be a strong year for development, with many projects coming on line in 2014. The only question now is how many more projects will be proposed.

New projects are likely to continue, as rents have been climbing. A 30% uptick in rents may not be good news for tenants, but it's certainly a draw for investors and developers. Another upside is that rising rents are causing demand to rise in the financial district, which has become secondary to the thriving Fan Pier area.

The only downside is that the economy as a whole has been growing slowly and unemployment remains high. Real estate is usually a lagging indicator of economic recovery, but this time it appears to be a leading indicator, because The Federal Reserve Board has pumped so much liquidity into the market. As new projects come on line, jobs will follow and that should give the overall economy the boost it needs.

Agreement Spares Commercial Development

Another positive is that the expected expiration of tax breaks affecting commercial development

never happened. In our 2012 forecast, we expressed concern about expiring tax breaks, but the recent fiscal cliff agreement left the industry virtually untouched and extended key tax breaks to 2014.

While many in the industry will be paying higher income taxes, capital gains taxes and more, several depreciation-related breaks that were expected to expire will remain intact for at least another year. Bonus depreciation rules, qualified leasehold improvements, Section 179 deductions and Sec. 45L tax credits for building energy efficient homes and apartments were all extended for another year as part of the agreement.

The depreciation-related tax breaks could disappear if the economy improves nationally, but they're almost irrelevant to the Boston market, which is so strong it would be thriving even with no tax breaks - not that anyone's complaining about the extension.

The tax breaks are of greater significance to the rest of the country, which is where the Boston market was a year-and-a-half to two years ago. Other major markets, such as Dallas/Fort Worth, Washington, D.C. and Los Angeles, are starting to catch up, but Boston remains far out in front and, if anything, development is accelerating.

The lack of an agreement over the debt ceiling and pending automatic spending cuts in the federal budget through sequestration could delay recovery in other parts of the country, depending on the outcome, but there's too much of a backlog and demand is too high for Boston to be affected.

After all, Boston is the "hub of the universe."

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