nerej
CELEBRATING 55 YEARS

Consensus is that Bostons markets have momentum which can run up to 2014-2015

January 24, 2013 - Spotlights

As a holiday present, one of my long time clients sent me a magnifying glass. The glass had a handle with a button which, when pushed, produced light to magnify the holder's view by multiple times.

2012 going into 2013 has been an incredible year. Major corporate moves are underway involving Goodwin Procter, Brown Brothers, TJX, Quest Diagnostic and a number of other firms.

This article will address the underpinnings of what is going on in the market, the specific conditions that exist and the strengths and opportunities that result. At the same time, to be "fair and balanced" the risks, threats, and timing of the robust conditions will be discussed.

Basic Economics of Boston

First, when the term Massachusetts is used, it is basically the eastern 40% of the Commonwealth that is being addressed. Not much is happening west of Worcester.

Next, throw out national statistics. They do not apply to us. For a robust economy to exist, GDP must grow at a rate of at least 4%. We are at or exceed that number. 87% of the 143,000 jobs lost since pre-recession peak have been gained back. Our GDP growth is running 4.5%. Within the next 3 years at least another 130,000 new jobs are projected.

What is the Cause of this Sudden Shift?

The primary answer is highly educated youth. A direct spin off from our major educational institutions, their ages are typically 23-37 years old. They came originally from all parts of the world to the state's prominent college, universities, and medical centers. Their mind set is clean tech, technology and being part of entrepreneurial ventures.

They want to be "where the buzz is." Brick and beam rehabs are far more appealing than classic ribbon- glass, free standing suburban office buildings. They wish to be close to Boston as their social life is in the city. They "dense pack" together and small is better. The days of an average of 250 s/f per employee are gone.

What are the Drivers in this Market?

It's primarily technology/lab/medically based. The funding for buildings, which they will occupy, is driven by record low interest rates caused by the Fed's zero return policy. The creators of these buildings are well-capitalized companies, developers and major institutions such as MIT.

Anyone's magnifying glass must be squarely focused on East Cambridge and the actions of Novartis, Pfizer and many others. Within the immediate area of Kendall Sq., 1,808,684 s/f is under development with 1,540,830 s/f actually under construction. Construction extends outside of Kendall Sq. with EF School expanding their North Point facility.

Anyone's magnifying glass is also focused on the Seaport with Goodwin Procter's announced move to be the anchor tenant in a 500,000 s/f building on the Fan Pier due for completion in 2016. At 1

Channel Center, State Street Corp. will occupy a built-to-suit 11 story office building of 525,000 s/f due to be completed in February 2014. Skanska just paid $33 million for part of Parcel L at Seaport Sq. to construct a 455,000 s/f office/lab building.

In short, a similar level of office/lab development as that found in Kendall Sq. is taking place in the Seaport District. Over 1.5 million s/f will be built between now and 2015.

In the suburbs, over 1.5 million s/f of corporate moves have taken place in the Metro West market. TJX purchased the 716,000 s/f Fidelity campus, Boston Scientific is selling its campus to Math Works and expanding its Marlboro campus by 225,000 s/f, Quest Diagnostics has leased 250,000 s/f at Forest Park in Marlboro; and there are others.

Conclusion

Just look at what the numbers say. In 2012, 2,791,453 s/f of office/lab space was absorbed. This compares with only 833,118 s/f in 2011. The last time we absorbed over 2,791,453 s/f of office/lab space was 2005. The same chasing of deals by highly capitalized investors as seen in 2005 is happening today.

Strong absorption is also happening in the industrial market where in 2012, 2,268,576 s/f took place. Again, we have to reach back, this time to 2006, to find greater industrial absorption.

On January 14, 2013 I attended an internal CBRE market review. The same type of numbers outlined herein are expected for 2013.

In general, consensus was that our markets have momentum, which can run up to the 2014 to maybe 2015 timeframe.

The wild card is federal fiscal policy. We are beyond the fiscal cliff of December 31, 2012 and the ripples resemble the Neponset River just south of Boston and its "lower falls" - almost non-existent.

Whether Washington DC's policy makers are up to the task of "threading the policy needle" of an out of balance level of debt is yet to be determined. The fiscal drag caused by another write down of the country's credit rating is the "Niagara Falls" that we are facing.

Boston's performance has been just extraordinary. We are all the beneficiaries and should keep enjoying it while it lasts.

Webster Collins, MAI, CRE, FRICS is executive VP/partner in the valuation and advisory services group of CBRE/New England, Boston.