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Build-to-suit projects are back after 6 years of uncertainty

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Positive energy seemed to be the theme for 2013 in all commercial market sectors. New England and national developers were more active, aggressive, and willing to take risks in 2013, a trend that will continue. Downtown Boston, Back Bay, and the Seaport Innovation District have more cranes in the air than in recent memory; and build-to-suit projects are under construction in the suburbs. Rental rates in most markets have returned to 2006-2007 levels. Commercial brokerage firms had their best year in a long time. Capital markets are robust and looking for long-term placement for their funds. Corporate clients have waited long enough and are investing in their future. Competition is still fierce in every discipline within a project with profit margins for design-builders and general contractors continuing to be very thin; but after six long years, ground-up build-to-suit commercial construction was back in New England in 2013.

In the suburbs, we tracked six build-to-suit projects last year including the 425,000 s/f multi-story office, R&D center with The Gutierrez Company for Green Mountain Coffee, Keurig Division, in Burlington; Trip Advisors and Normandy Real Estate Partners broke ground on a 280,000 s/f multi-story office building on Rte. 128 in Needham; Red Hat, Inc. and Gutierrez added 100,000 s/f to Red Hat's headquarters in Westford; and FedEx Ground, Scannell Properties, and Dacon completed a 178,000 s/f Boston Metro sorting complex on a 15-acre site on Superior Dr. off Speen St. in Natick. Crown Uniform & Linen Service broke ground on Battles St. in Brockton with a 94,000 s/f headquarters and consolidated commercial laundry, and AccuRounds, Inc. added a 21,000 s/f manufacturing addition in Avon - both projects on a design-build project basis with Dacon.

We checked off the box for speculative development on Rte. 128 with Duffy Properties completing the core and shell for a 120,000 s/f, first-class office building at their Blanchard Rd. project in Burlington. Ground was broken for Centennial Crossing in Centennial Park in Peabody for a 41,000 s/f dual building flex complex for retail, office, flex, and light industrial space.

Looking at construction personnel and boots on the ground in January 2014, the field is slower than we'd like, with post-holiday and winter conditions factors kicking in. However, the first six months of 2014 will see build-to-suit projects continue at or above the velocity of last year. At press time, there are ten build-to-suit projects in eastern New England in one state of engineering or permitting with target dates for groundbreakings in the first or second quarter of 2014. Total anticipated cumulative footprint of the projects is in excess of 800,000 s/f. The largest facility is a 308,000 s/f distribution center in southern New Hampshire.

Construction costs are rising, but not at a detrimental rate; and buying out subcontracts on these projects during the first three months of 2014 will help check price escalation for traditional design-builders. The build-to-suit market is back after six years of uncertainty. I expect groundbreakings will occur in the first or second quarters of the year as scheduled which will be imperative for a very positive 2014.

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