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## Market trends - Boston's real estate world The view of six highlights for 2019 - by Webster Collins

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This article continues the central theme of insights caused by my being part of CBRE and published in the NEREJ in January every year since the end of the Great Recession. I will repeat: Boston's real estate fundamentals are strong. There will be no 'mild recession' as predicted by naysayers year in and year out. A stabilized market will continue well beyond 2020.

There is one red flag; the out-of-control increase in construction costs.

This article will address market highlights:

- The Cambridge phenomenon
- Multifamily housing
- Co-working
- Life science
- The suburban value proposition
- Where the opportunities are

### The Cambridge Phenomenon

The Cambridge Biotech market, which contained 3 million s/f in 2000, in about 20 years has grown by more than four times to close to 14 million s/f. In Q2 2007, CBRE bifurcated its market statistic reports for Cambridge into office and lab markets. Asking lab rents were \$51.25 per s/f NNN. As of Q4 2018, average asking lab rents are \$86.45 per s/f and East Cambridge's lab rent was \$95.85 per s/f NNN. The East Cambridge lab vacancy rate is 0%. Completion of new lab construction to fuel huge demand will not occur until 2021.

Boston has emerged as the leading life science cluster in the world.

### Multifamily Housing

Multifamily housing demand is driven by jobs. Boston has the most unfilled job openings since the

Dot.com era began in 2000. The Boston metro area added over 100,000 jobs in 2018 alone. The overall result is that market fundamentals are outstanding, vacancy rates are at 4-5% and rent growth averages 3.5% per year.

The fundamental problem is that supply is starting to slow. The reason is that rent growth has not kept pace with rapid rise of construction costs. Case studies exist showing increases over the last six years close to 10% per year for urban product.

The overall result is that land prices are being impacted and have declined in certain high-cost locations. Under all lies the land, with land pricing being the last component of production. Projects have come to a screeching halt as sites purchased at prices of that past do not 'pencil out.' The loser is affordable housing. While the housing markets remain strong, stable capitalization rates are at risk with increase in interest rates.

### Co-Working

Prior to 2013, only two shared space models existed for office space. These were Regus and Cambridge Innovation Center. In 2013 the first WeWork location opened in 48,000 s/f at 51 Melcher St.

Flash forward to 2018. WeWork now occupies 900,000 s/f in the Boston market. Boston is the fifth-largest co-working market in the United States. Co-working space is driven by the need for short-term occupiers, particularly by tech companies, start-up companies and enterprise users.

Co-working is becoming an asset class by itself. There is ±1.4 million s/f of co-working space in Boston.

With the high cost of housing in Boston, the co-working model is creeping into apartments under a co-living model, which fully furnished spaces by the bed, with a common kitchen, living area, and private bedroom and bathroom.

### Life Science

There is a record number of requirements in the market. This includes Cambridge and the suburbs. The demand is fueled by venture capital investments. Within the Boston area, over the last 2.5 years six high-profile VCs raised \$2.9 billion, the lion's share of which will be located within the Greater Boston area.

Life science supply has a lengthy timeline. Tenants in East Cambridge are aware of this and land bank more space than needed. They sublease this space out for 2-3 years expecting to grow into it.

While Cambridge is a ground zero location, with 0% vacancy, life science is moving to other locations. There is a heavy presence in Watertown and the Seaport. Western Ave. on the Brighton line with Allston is now targeted. Recently, Anchor Line Partners leased 107,000 s/f at their project, Post in Waltham. Another trend is that life science locations are being driven by how employers wish to differentiate themselves to attract the best talent and increase employee retention. Commute

times are a critical issue.

### The Suburban Value Proposition

The suburban value proposition is a strong magnet. An employee that lives in Watertown, for example, can cut their commute time in half if they switch from working in Cambridge to Waltham.

The cost of housing is similar. On a square foot basis, housing in the Back Bay is about three times the cost of Westwood, and four times the cost of Southborough.

Large suburban sites are creating neighborhoods consisting of multifamily housing, office space, and a matrix of retail amenities. High clear height flex buildings provide an interesting alternative for flexibility and use and are found in the suburbs.

### Where are the Opportunities?

The lines between the urban and suburban markets are blurry. The suburbs might not have the flash of the Urban market but provide an incredible value proposition and are linking the city and suburbs together. Greater Boston is becoming one market.

Boston is a market filled with new economy companies involving robotics, medical devices, or the latest in automotive technologies. These companies can go anywhere that they can find space to fit their needs. There are opportunities in the suburban market. Opportunity Zones as created by the 2017 Tax Cuts and Jobs Act can create options for economically underperforming locations in Boston.

One of the major opportunities involves the e-commerce explosion. Last mile and e-commerce will have an extraordinary impact on Boston. Basic market statistics suggest that every \$1 billion in e-commerce sales require 1.25 million s/f of specialized warehouse space to service product distribution.

E-commerce is one of the reasons why industrial warehouse vacancy is at a record low 5% and why new speculative built high-bay warehouses are under construction.

Overall, Boston is a supply-constrained market with a consistent flow of demand from tenants of various sizes and various backgrounds that are driving the fundamentals of our market.

This article is based on a summation of thoughts from CBRE's January 10, 2019 market presentation to clients of the firm.

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