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The city of Boston is a dramatically different place than it was at the start of the 21st century - by Webster Collins

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The leaders in Boston's current real estate growth spurt are the new equivalency of the Boston Trustee, which built much of the city 100+ years ago. To mention a few major participants in Boston, there are the followers of Peter Aldrich at AEW, Peter Palandjian of Intercontinental and Brian Kavogian of Charles River Realty Investors. On June 12, 2019, I listened to Brian Kavogian outline the new boundaries of the city, and I will add several of my own thoughts to what I heard him say.

The city of Boston is a dramatically different place than it was at the start of the 21st century:

- Boston has the 10th largest metropolitan population in the United States.
- Boston has the 9th largest GDP in the country.
- Seven of the top 50 colleges/universities are in Boston.
- A greater intellectual market exists in the city of Boston than anywhere else in the United States.
- There are 37,000 new graduates each year from the seven universities, and many wish to remain in Boston.
- Boston was the first out of the box in recovery from the 2008/2009 recession.
- Rents are increasing rapidly.
- Boston is the #1 city in National Institute of Health funding in the U.S.
- Boston is the #2 in venture capital funding in the U.S.

- Boston has 200,000 more jobs than its previous peak year of 2000.

The New Boundaries of Boston

Boston as a city has limited developable land. Its new land sites are in Allston-Brighton, which is moving into Watertown. East Cambridge is expanding northward into Everett and eastward into Charlestown. The Longwood Medical Area (LMA) is fully built out and expanding along Rte. 9 and MBTA stops in Brookline. The One Brookline Place addition was completed in June 2019. Two Brookline Place core and shell completion is scheduled for October 2019, and BCH will move in July 2020, all outside of the LMA.

The new boundaries of Boston are where its realty professionals choose to invest the \$100+ billion in capital, that it is responsible for investing. New boundaries are also outside the confines of New England. Realty investors are being guided by CBRE's Economics Advisors Group as to where to invest. Underserved areas include New York as it relates to medical research health services and life science uses. Boston's King Street Properties chose Long Island City, New York, for a 263,000 s/f life science development. Alexandria Real Estate Equities is developing the Alexandria Science Center in New York. Specific market participants state, "We for the most part are pricing off Boston/Cambridge. We believe NYC will be a robust market. What is important to keep in mind in that in developing markets there are not many lease comps."

How Do Appraisers Analyze Boundary Markets?

To use Boston's LMA "market creep" as a case study, appraisers start with base line rents. Within the LMA, medical treatment office rents in the 2017-2018-time frame were \$70-85 per s/f NNN with an average of \$78 per s/f NNN. Appraisers then look for situations where new boundaries exist. Appraisers do not have to look far. In the 1990s, the Seaport was vacant with former rail yards used for parking. It did not start to make its upward move until Q1 2006.

As of 2006, Seaport rents averaged \$27.60 per s/f. Downtown CBD rents averaged \$38.76 per s/f. This is a 27.7% difference. A 27.7% adjustment for location would suggest \$56.00 per s/f and low and behold, there is a \$56 per s/f NNN rent outside the LMA at 800 Huntington Ave. How appraisers adjust is all part of market analysis.

Conclusion

The conclusion is that the oldest urban markets are now the new urban markets in which to invest. In old markets, rents are typically 27.7% below where they will grow to in time. The challenge is to find under-served markets where the cost verses value equation works. Life science buildings have a base building cost of \$225 per s/f total cost of \$700 per s/f, and upon completion will sell at \$1,000 per s/f.

The point is that basic economics of our markets are incredibly strong. The predictions of chief economists as to recessions have been unfulfilled. The cornerstone of all commercial property valuation is the principle of anticipation: "Value is created by the expectations of benefits to be derived in the future." In Boston, the only issue is overbuilding in terms of new construction. It is new

construction that will shake up capital markets. We cannot outgrow our labor force, which is the true measure of growth. For the present moment, there is too much lab space on the drawing boards. Our medical treatment office markets are in great shape due to market demand.

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