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New England chapter holds landlord breakfast event

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Newton, MA The New England SIOR Chapter held its first event for 2020 on February 5, at the Newton Marriott. Approximately 42 SIOR members and guests were present with a special visit from the SIOR National president Mark Duclos. The featured landlord was Legatt McCall Properties and Bill Gousse, executive vice-president.

Mike Giuttari, chapter president, welcomed everyone to the event and gave an overview of the upcoming chapter events planned for 2020. April was to be the Spring Convention. In May the chapter is planning to hold the Big Brothers/Big Sisters event at the Harpoon Brewery in Boston. June will host the NAIOP/SIOR Mid-Year Market Review. July will host the annual chapter golf outing. October is the Chapter's RW Holmes Scholarship Night then the Fall SIOR convention will be held in Boston. In November or December is the annual NAIOP/SIOR End of the Year Forecast. Mike mentioned that SIOR has new names for the conventions. The Spring convention is renamed TransACT360 and the Fall Convention is renamed CREate360.

Giuttari introduced Greg Klemmer, chapter vice-president. Klemmer introduced Bill Gousse as the morning's speaker and some of the Legatt McCall projects.

Gousse gave a background on Leggat McCall as a 55 year company with 60 employees. The firm advises partners on development and investment projects such as MIT, Harvard, Vertex and other private developers.

Where does Gousse see the commercial real estate market heading?

Gousse stated that we are in the middle of the biggest Boston boom and inland migration of companies especially for office space. There is a great deal of demand for construction for multi-family from Rte. 495. Legatt McCall is focusing on downtown and inner suburbs where lab and multi-family demand is high. Lab projects are showing big volume as underwriting projects and he wants to see if any of these projects transfers from underwriting to actual construction.

Gousse sees strong demand for downtown housing but he is also seeing headwinds. The headwinds are due to affordability and high construction costs. It is becoming more and more difficult to pencil out housing projects. Gousse anticipates that with inward migration, we will see rents over \$100 per s/f and more traffic. He thinks that Rte. 128 might be the new shift from downtown for companies or company satellite locations.

Industrial Demand: Gousse stated that with urban location demand, there is a change of use impact to develop residential from old industrial sites. This shift is creating upward pressure on industrial rents. He feels that, like other markets, there may be an evolution to multi-story industrial.

Gousse then shifted the discussion to some of the Legatt McCall projects.

The Smith: The project is located in the South End. It is 650,000 s/f with 700 units of mixed-use, residential and retail space. The project comes online Spring 2020. Rents will be in the \$5 per s/f for residential.

40 Thorndike: This project has been 8 years in the making. It is the former Lechmere Cambridge project of 470,000 s/f of office, retail and residential. The good news is that while they worked to obtain permitting for 8 years, the Cambridge rents have appreciated in their favor. It will be a speculative project and is about to commence with construction.

Boynton Yards: This project is an inner urban industrial project near Union Sq. They are playing off the new Green Line extension that is to be completed by Fall, 2020. The project is 289,000 s/f of lab space with a residential component. It is located near MIT.

Bunker Hill Housing Redevelopment: This project consists of 2,699 new housing units and renovated low income units. The land value is paying or subsidizing the low-income prices.

The Vale: This project in Woburn is the former Krafts Foods manufacturing facility that was sold to Legatt McCall. It is 100 years old and has 107 acres. It has been dormant for the last three years. The total project will be 1.6 million s/f of development with residential, mixed use, hotel, office, lab, parking garage and senior housing. Legatt McCall is selling off the residential components to focus on the commercial component. There will be a 600,000 s/f medical component and he is anticipating a rebound of company relocation from downtown to Woburn/Rte. 128. The project still has quite a bit of land that has not been determined for use. It could be lab, medical, built-to-suits, office, etc. Gousse is very flexible on future ideas.

The project is near retail amenities, craft breweries, shopping, etc. to attract young workers and still be close to Boston. They started demolition of the existing old buildings and will start road construction in 2020. They will have shuttles to transportation nodes and rapid transportation. They will have redundant electric, large water capacity and a great deal of infrastructure.

Rents: Gousse sees office rents continue to climb. Watertown is executing office leases in the low \$70 psf. He thinks his Woburn rents will be at a discount in comparison in the upper \$30s, lower \$40s.

Tenant Improvements: Gousse is seeing suburban TI allowance at \$100 s/f and he thinks the final costs will exceed that number. Going over \$100 per s/f is for very high end office fit-up from shell condition and non-union labor.

Construction Costs: Gousse was asked by the audience for his insight on increasing high construction costs over the last few years. He stated that after the last big recession, there was a sudden demand for construction and now there is a building boom in Boston. Construction jobs are pulling workers from other sites and the subcontractors are struggling to find workers. We are in a full employment plus and we are experiencing a productivity decline along with increasing construction costs.

Additionally Gousse said that the trades are aging and there is very few young people entering the industry. Young people are opting to go to college and have a better job. So we have a labor shortage.

Gousse felt that there is some material cost increase as well but not to the extent as labor cost increase. It is just sheer volume of construction in Boston and the volume is outpacing the labor availability. In the past some trade guys were sitting around the hall with no work but now they are fully employed.

Kevin Quinn from Dacon also chimed in his thoughts. He felt that the cost increases were more about system changes. He said that he sees system changes, design changes, energy efficiency, flexibility, glass system design changes, different manufacturing processes and changes in the scope of work. All these factors are prolonging construction scheduling and duration. He listed his top 3 reasons for high construction costs as:

1. System changes, means and methods;
2. Material costs; and
3. Labor and longer scheduling time due to system and method changes.

Quinn stated that labor is not the biggest factor. For the most part, wages are fixed if the labor is union wages. And union labor rates are not appreciating as much as they could.

Opportunity Zones: As a final question, Gousse was asked about the impact of Opportunity Zones on his business. He said that he has three projects currently in Opportunity Zones. He said that the OZs don't make that much of difference. The OZ cannot make a bad deal a good deal but it will make a good deal a better deal. The OZs to Gousse are not much of a big deal for development.

Mark Duclos concluded the program with a few words on the upcoming July SIOR Ireland European Conference. He has just visited Dublin and said that the city is great venue.

SIOR now has 3400 members in 380 cities and SIORs have great coverage for business networking. He asked that if you sponsor a candidate for SIOR to be sure that you have vetted out the candidate and that you stand behind the candidate. Otherwise, he asked that we not endorse a candidate.