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SIOR NE Chapter hosts SIOR Northeast Conference in Boston

May 13, 2022 - Front Section

The SIOR Northeast Regional Conference was finally held March 24 and 25, in Boston after two years of the pandemic. The conference was held in Boston at the conference facility of Boston Properties at 290 Congress St. SIOR would like to thank Boston Properties for donating its facility for the conference. The Northeast Conference included the chapters of SIOR NJ, SIOR NY, SIOR CT and SIOR New England with over 120 people attending.

The opening reception was held Thursday night at the BC Club in downtown on the 36th floor overlooking downtown and a 40-mile radius. Rob Nahigian was the member host of the reception that helped arrange the event with Phil Gagnon. The conference committee was co-chaired by Greg Klemmer, New England Chapter president and Laurie Tylenda, Update NY Chapter president with committee members Tim Brodigan, Arlon Brown, Michael Dalton, Phil Gagnon, Garry Holmes, Steve Kornspun. Nahigian, Scott Peck, Chuck Reilly and Ernie Wronka with special assistance from Bernadette Blaze, Kristen Nave and Jessica Spano. The conference committee started planning this event in early August, 2021. Many hours went into planning over the last eight months.

The Thursday night reception hosted SIORs and guests with Klemmer welcoming everyone to the event. Dacon Construction sponsored the event and gave attendees SIOR vests. Thank you to Dacon. The event included Mark Duclos, past SIOR president and Pat Sentner, current SIOR president. The event ended with guests attending the BC bar to watch March Madness and discuss commercial real estate trends.

March 25 was the full day of programs. Other sponsors for this conference included Arco National Construction, LiveOak Bank, National Development, Atlantic Management, Nordblom, SIOR Foundation, Camber Development, Timberline Construction, Compstak, CRG Integrated Real Estate Solutions, and Ten-X. We thank all of the sponsors. The theme of the conference was “What is it that We Don’t Know?” The committee had decided early on that it did not want sessions that were mere market reviews. SIORs are at the top of its industry and market reviews are redundant for these experts. The committee also wanted sessions that were broad base in geographic and interest in order to attract SIORs from throughout the Northeast. It was decided that it could not be purely Boston focused and the speakers needed to be from various sections of the northeast.

Four sessions were planned starting at 7:30 am with breakfast and then the first session at 8:45 am. Each session was planned for one hour and fifteen minutes and commenced with the Northeast Office Market; then the Last Mile, Industrial Explosions; The Seaport, Marine Park, Boston’s Innovation District and Harbor; and lastly the Life Science/Lab/Biotect Manufacturing.

The first session on the Northeast Office Market was moderated by Bob Cleary, SIOR, Colliers Boston with NJ Market Speaker, Chris Marx, SIOR of Savills; Jon Stravitz, Esq, SIOR, SVN; and Ara Krafian, PE, president/CEO, Symmes Maine and McKee Architects.

Bob introduced the program by stating that the office market has been hit the hardest by the COVID pandemic for the last two years and counting. CBD, suburban office parks, corporate campuses, and Main St. are trying to figure out what’s next. Landlords, developers, and national REITs are adjusting to the new normal, working with tenants, brokers, and architects for acceptable solutions. What percentage of leased space is actually occupied and what’s the effect on rental rates, property values, and leasing velocity? Where are alternative uses happening for office to lab, retail to office, or fulfillment and office to residential? The panelists will discuss solutions that architectural firms are suggesting and implementing to their developers and tenant clients.

Cleary opened up with a snapshot of the downtown Boston market. Class A rents are holding and concessions are increasing. Vacancy improved after six quarters of negative absorption at 14.1%. Demand is strong with 5 million s/f of tenants in the market driven by record VC investment and the continued growth of the life science market. A divide between class A and class B emerged indicating a flight to quality. Available sublease space reduced from 3.3 million s/f to 2.1 million s/f through the year. Return-to-office plans in Boston lag behind national averages but are underway. Market rents downtown for class A rents are in the $65-115 per s/f range while East Cambridge is as high as $120 per s/f. The panelists then discussed the following:

1. COVID impact on office;

2. CBD, suburbs, corporate campuses;

3. Tenant, design professionals, owners, developers searching for solutions;

4. General :

i. What is occupancy today?

ii. Have rents suffered, will they? When?

iii. Downtown v Suburbs

iv. Towers v Renovated

v. Office v Lab

vi. Any impact on valuation?

vii. Where is leasing velocity?

viii. Alternative uses?

ix. Office to Lab

x. Office to Residential

• Design professionals’ findings, recommended solutions to prop-up office (urban / suburban)

Practical Observations

• Some offices are looking to convert to lab or residential but the conversion is not easy. Codes are different, plumbing demands are different, ceiling heights are different and office may not be easily adaptable.

• Rents are not suffering and are started to increase.

• Leasing velocity has definitely picked up. Occupancy has picked up and traffic has increased as people use less mass transit to maintain distancing.

• Embrace change, look forward optimistically to the benefits. The younger generation likes hybrid and aren’t crazy about going back.

• Hybrid and remote office solutions, philosophy and strategies. Companies may have employees back in the office only once a week or only once or twice a month.

• Talent pinch-points. Its tough to find help and employers will have to appeal to employee wants and needs.

• Employer – Employee relationship has changed.

• Challenge of maintaining corporate culture, social element at work, reality of bonus, promotion and succession. If workers aren’t coming back to the office then how does a company create a culture? It will be difficult. And for those who do return, they are having more face to face contact with supervisors that can accelerate promotions while those at home may not achieve that the same promotions.

• Mentoring – a combination of knowledge of experience and knowledge of youth. Without the face to face contact, mentoring will be more difficult. Zoom can only go so far on relationship building.

• The bigger issue is that many office tenants are taking short-term leases to be flexible in case they move to the suburbs. But short-term leases create financing issues with lenders due to the uncertainty of occupancies.

• Ara Krafian felt that the amount of square footage is not going to decrease due to flights to the suburbs. It will be increasing as space density increases to create body distancing. He also felt that 90 s/f per person densities are gone. You will start to see more densities over 200 s/f per person.

Last Mile, Industrial Explosion

The moderator was Doug Landry, AICP, senior associate of Langan Engineering. The speakers included: Mark Duclos, SIOR of Sentry Commercial, Daniel Connaughton, VP of development of Link Logistics and Andrew Hurwitz, partner-Northeast Region of Bridge Industrial. The moderator stated that industrial is finally, after decades, the most dynamic market segment in commercial real estate nationwide. Here in the northeast for the past three years has been last mile warehouse and distribution properties. This sector is setting historical performance levels in all measurable categories never seen before. His panel would discuss the velocity of this market segment, the tremendous pressure last-mile online delivery companies have had on the industrial market and its effect on repurposing obsolete office buildings, under-performing retail centers, and manufacturing facilities. The panel would discuss developer strategies, permitting challenges, rental rates, land costs, construction costs, supply chain challenges and lead times, and broker challenges in the successful race to groundbreaking and occupancy.

Doug Landry stated that industrial costs per s/f were now over $200 per s/f. Starting rents in the outer regions are $10-12 per s/f NNN, suburb belt at $15-20 per s/f NNN, and closer to the city at $20-22 per s/f NNN. The panel did not think that these rents were sustainable for tenants. The vacancy is now 2% or less in most markets. Dan stated that the Connecticut vacancy rate was 2-3% with pricing in the $55-60 per s/f and has high as $80 per s/f. He thinks that the costs will continue to climb.

There were further discussions about pad and building costs. Site costs are now reaching the same cost as the building construction cost. It’s a case-by-case situation. Since the end of 2021, the cost to building an industrial building is up 35-50%. Structural steel was way up in mid-2020 and now there is a long lead time for material with up to a year. Boston has a “run” on land value and can be 50% of the total budget. LA, the Empire region and CA are up 70% of the total budget due to land costs. There are also record high lease rents. The panel also complained that utility costs are up because Amazon is sucking up so much of the utility capacity and there is a great deal of antiquated utilities. The panel also stated that in MA you have to look at a 30-minute drive for your labor pool. Locations being considered have to be in the target areas near Worcester, North RI, Brockton, Lowell, etc.

The panel then discussed reversed logistics and stated that it is 53% of cost on items. Only 30% of product returns are revenue generating so consumers are often told to keep the product instead of returning it. The panel also speculated that the future of industrial rents could expect a 35% increase.

Boston Seaport

The afternoon session was moderated by Kristin Blount of Colliers Boston. She opened by stating that the Seaport and Black Falcon District is a neighborhood that was once the WWII industrial/manufacturing district for the U.S. Army and Navy that created ammunition for the war efforts. Over time, this area remained an industrial area with old and abandoned buildings, a few restaurants and many parking lots. Since the Big Dig was completed over 20 years ago, the Seaport has undergone an extensive redevelopment making it one of the largest developments of residential, retail and a lab cluster in the U.S. Companies such as Vertex Pharmaceuticals and GE HQ have relocated here. The panel would provide numerous insights including how the district transformation unfolded, what development is projected over the next ten (10) years and what issues remain. The guest speakers included: Juan Carlos, deputy director of real estate development of MassPort Real Estate Dept; Richard Martini, senior managing director of The Fallon Co.; and Yanni Tsipis, senior vice president-Seaport/Fenway Development, WS Development. All speakers have been actively involved with the history and development of the Seaport District.

Blount gave a snapshot of the Seaport market. The vacancy recovery started early in the Seaport. Vacancy is at 13.8%. Fast-growing residential population bodes well for office demand. About 300,000 s/f of sublease space is available; half of peak level. Seaport buildings built in the last decade have sub-4% vacancy and rents are holding up. The submarket is positioned to reach a record level of occupied space in 2022. Developers are starting to favor life science over office.

Carlos gave a great historical slide show of the Seaport going back to 1910. He discussed aviation height restrictions, truck routes that are critical, MassPort owned property, how the Seaport and Black Falcon were once South Boston Flats in 1910 with most rail heads and ships. By 1966, the Seaport was a rail yard until its modern era in 2005 with the construction of the new Federal Courthouse. Richard Martini and Yanni Tsipis then had slide shows on how the Seaport transformed over the last 20 years into commercial and residential uses. Retail, hotel, breweries and 500+ free public programs and outdoor events with acres of open space. Both discussed that being a developer required to be a partner with the area's neighbors and to create as much outdoor parks and events or the Seaport would not have been successful. There was a discussion on how Vertex Pharmaceuticals was then attracted that really set the stage for development. The need to be close to talent, housing, an urban environment, near Logan airport all were amenities that then attracted GE HQ and Amazon. Yanni has been involved with over 7.6 million square feet of mixed-use development in the Seaport. Yanni also spoke about the drivers in the next 10 years in the Seaport.

Labs/Life Sciences/BioManufacturing

Dave Provost, senior vice president - development, Boston Region of Boston Properties was the last moderator of the final session on Lab and Life Science in the Northeast. Provost introduced the program by stating that the U.S. experienced a boom in life science development prior to COVID and now it is exploding. Cities have transformed office buildings into lab clusters. Life Science companies are pre-leasing two (2) to three (3) years in advance of building construction and we are only in the second inning of a wave nationally. The panelists would discuss the criteria for lab sites, where these companies want to locate and how the process of taking a drug to market affects real estate decisions. Also are companies moving to the suburbs or is lab clustering purely urban? How relevant is employee recruitment to site selection and rent structure? Does the rental rate even matter? What is the concept of lab clustering?

The panelists included: Chuck Pappalardo, vice president-Corporate Real Estate and Global Operations, Vertex Pharmaceuticals; Anthony Consigli, CEO of Consigli Construction; and Chrissy Gabriel, director-development IQHQ REIT.

Pappalardo stated very interesting facts about the pharmaceutical industry. It can take up to 10 years to bring a research item to market and over $1 billion to create a solution drug. Then 7 of 10 trials fail; only 3 out of 10 are successful. The drug business is extremely expensive. Vertex moved to the Seaport first and there was not any lab clustering. They were by themselves but were close to downtown Boston to attract talent.

The panel then discussed other points to consider. A lab tenant like Vertex can require 200 lbs per s/f of floor load and 14-15' clear ceiling height. Manufacturing of drugs is better on the top floor of a building due to the ducting system it needs through the roof. It's too difficult to manufacture on the ground floor because manufacturing uses too much usable square feet. Labs need heavy power. At times, manufacturing off-site can make more sense. Labs don't want columns or at maximum to be 60x60. The cost for TI can reach $1800 per s/f Standby power and back-up power is essential. You can't have power delays or stoppage when you have freezers at 200 degrees below zero for medicine. The temperatures cannot be altered when you are working years to find a cure. In terms of carbon footing, its impossible to get to net zero with these lab buildings. As it is, there isn't adequate power in the grid that is needed to create adequate kilowatts. Even if you convert to electric, you are still using fossil fuels to drive the electricity.

The conference ended at 4pm and there was a reception held at the Scotch Lounge at the Intercontinental Hotel next to the conference. The event was sponsored by Arco and we thank them. Many of the attendees filed over to discuss the day's events. It was a very successful conference that included SIORs, CCIMs, CREs and other commercial real estate practitioners. Thank you for all that helped, moderated and served as a panelist.