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## **SIOR NE Chapter holds annual market review and holiday reception**

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Boston, MA The SIOR New England Chapter held its annual market panel overview at 100 Federal St. Over 50 attendees were in the auditorium on Thursday, December 5, 2024 from 3pm to 5pm and then followed by a holiday reception. The program was in partnership with Vantage Builders. The insightful panel held a discussion diving into the challenges of today's market and exploring the opportunities ahead. The panel included: Eddie Silva, business development, Vantage Builders; Jim Mawn, CEO of Northern Bank; Erin Harvey, senior VP, EQT Exeter; Rachel Marks, senior VP, JLL; Rhett Smith, VP of operations, The Engine Accelerator; and moderator, Michael Dalton, SIOR, principal, Avison & Young.

Chapter president George Paskalis, SIOR welcomed everyone and gave background information about the history of SIOR. There are 50 New England Chapter members in five states that exemplify the best practitioners that provide best practices and highest ethics. The chapter hosts 6-8 events per year and he thanked all of the sponsors for their support including this program's sponsor, Vantage Builders. The next Chapter event will be March 12 which will be a hockey event. Last year there were 18 teams. They will again hold a May Golf event. Paskalis also congratulated the newest members of SIOR, Mike Ogasapian, David Skinner and Dan Driscoll. Jim Boudrot, SIOR has been acting as the chapter admissions chair.

Dalton then asked the audience to take a moment of silence for the passing of Tom Alperin in mid-November who was a long-time leader in Boston's commercial real estate and the founder of National Development.

Silva then started the program by stating that we don't have the same federal stimuli as we had in the past. He felt that there was some loosening of cash and that future cuts were somewhat muted. But unlike 2008 and 2020, this time there is no federal stimuli. He believed that it would take time to improve the lending environment.

Silva was asked if the lead time was getting better for construction? He said, yes it is but there were still long delays for equipment and parts. Electrical equipment was still taking a year to order as much of the material is coming from China and other parts of Asia. So its difficult to get pre-COVID conditions. He said that we have to work through this long lead time. He also concluded that 2024 was an expensive year and therefore a lot of construction did not happen.

Marks started by saying we were experiencing a tale of two cities. There is a major supply of big box

development. From 2017-2022, the Boston area had been averaging 1 million s/f per year of construction in this five year cycle. Due to high demand, there was a lot of speculative development and much of this development was not suited for this market. Some of the space could not be subdivided. Therefore, it will take time to work through the oversupply. From 2023 to 2024, over 7 million s/f of industrial space was delivered, and it will take time to absorb. Smaller buildings with 50,000 s/f or less were absorbing. It will take years for the big box space to absorb.

Harvey gave an overview of her private equity firm. She said that her firm is seeing a push for the industrial market and spent \$8 billion in 2024 for industrial and that Boston is considered an A+ market to invest.

From 2021 to 2022, over \$1 billion was raised by her firm and they had to be careful on its allocation. They looked to do spec development. They are now in a position to invest more money but they need to see the bid/ask spreads get closer. There is too much of a gap.

Smith described Engine Accelerator as a seven-year-old company that is capital intensive. They can have hi-end expensive lab space to easy less expensive space. Right now there is a great deal of lab space however the demand will come from other areas of research. There is a great deal of innovation that goes beyond drug companies such as climate change and other life science needs. Lab space is different than warehouse space so it can't be in the same building with engineering fabrication space or lab grown trees or bio-tech space. They need initial affordable space and that is difficult to find. They need heavy power. They could lease 5,000 sf and use 25% of a building's power capacity.

Dalton asked with all the lab space out there, can it get filled or will it be transformed into different use space?

Harvey answered that the market needs to have flexible space to attract tenants. High rise lab space is challenging. Power is really important and a building with power has leverage and market advantage. However securing power is really difficult to obtain.

Mawn flatly stated that banks want out of commercial real estate at this point.

Smith said that the market is waiting for the next Moderna. There is no lack of start up tech companies and venture capital will convert and give more money. But right now, venture capital is sitting on cash. The lab space will get filled but its slower to do so. The market is not lacking innovation.

Dalton asked Marks are some lab buildings over exuberant to become something else? Do these lab buildings need to be razed? Marks stated that we are not there yet. We have functionally challenged warehouse space right now. Harvey stated that even with zero land pricing, the lab construction costs are still too high to be financially feasible. Silva said that he's seen some owners look at office to lab space conversion. Lab space built 2 or 3 years ago is better to be transitioned and to be cost effective. Smith said that government works on a year time line and needs to work

better with companies on its time lines. Mawn said that the government will put more gas on the fire for future economic development.

Harvey speculated that products from China are being shipped to Mexico then to the U.S. Now there are more spec industrial buildings being developed.

The next topic was the Role of Government and Taxation. Dalton started by stating Boston is trying to shift real estate taxation from residential to commercial real estate. Will any tax shift create an exodus from Boston? Marks snapped back by saying suburban real estate taxes are up as well such as in the town of Wilmington at \$4.50 per s/f. There is no release of value in the suburbs so there will not be any exodus. Boston doesn't have much industrial space in the city so there is not much demand to vacate the city. Silva stated that its cheaper to build in the suburbs with non-union labor.

The discussion continued about 2024 and 2025. Mawn stated that the market is not sure if inflation is under control yet so the uncertainty is impacting the 10 year interest rates. If the job report this month comes out strong then interest rates are not budging. Silva stated that there wasn't much for revenue growth in 2024 as his company had expected in January of 2024. He hoped that the Trump effect would be good for construction. Mawn then said that in January of 2024, he didn't experience bank failures, and he thought that the money supply would stabilize. But it didn't. In 2025, he sees a lot of opportunities, especially with office low valuations. He sees companies sending employees back to the office which will accelerate office real estate value. Smith thought that 2024 would be slower but the market doesn't lack innovation. He feels that we need an economic system to surround innovation. Marks felt that 2024 played out better than expected and there has been more diversity. But there is a need for e-commerce to rebound to help 2025. She felt that there was a great deal of pent up demand. Harvey wrapped up the program by saying the office/life-science market in 2024 was expected to have better quality assets for sale but was disappointed with lower quality. She hoped for more venture capital in the lab market in 2024 but that investment did not translate into additional growth. She is hoping that 2025 will experience more VC money.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540