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Planning and permitting now position urban infill projects for next development cycle

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In this time of economic turmoil, the knee-jerk reaction is to put commercial development on hold. Nearly all who analyze real estate trends nationwide, however, agree that urban infill projects, particularly those that are transit-oriented and/or mixed use, in solid markets will continue to be strong bets for the long term.

Recent energy price fluctuations and road congestion have revealed the shortsightedness of sprawl-centric development trends of recent years, and have led to a demand for development that creates convenient urban live and work solutions. High growth areas such as Phoenix, Las Vegas and much of Florida, currently the hardest hit in this economy, will continue to be less attractive to investors as we emerge from this current downturn. In addition, when capital returns, it will start slowly, concentrated in cities that have solid fundamentals and a positive investment track record. This will result in a "flight to quality" to sustainable projects in gateway cities.

Boston is a transit supported gateway city built upon a diverse economic base. It continues to be attractive to the international investment community. Fortunately for investors and developers, new construction was largely constrained during the current cycle leaving both office and residential supply manageable. There may be a decrease in demand as the national economy dips. But due to successful preleasing in the office market and low vacancy in the residential sector, when the recovery arrives Boston will quickly require new space.

We as a region must continue to provide options for companies to locate and residents to live when the demand presents itself. It wasn't too long ago that the inability to attract companies and talent due lack of available buildable land, and a constrained housing supply were major concerns of both policy makers and corporations. However, planning and permitting a project of any scale in a desirable city such as Boston takes several years. Layer in the building design process, and it's 3-5 years before a developer can break ground.

Many conceive of projects or confirm financial viability near the top of the real estate cycle, ensuring that by the time a project is ready to break ground, the cycle is missed. For example, the current real estate cycle began in 2003, the year that marked the first year of recovery. Vacancy rates were at cycle lows in 2007 yet no commercial office buildings delivered between 2005 and 2008. Several commercial office buildings broke ground in 2006-2007, and these will now deliver into an uncertain market. Other projects completing permitting, design and other predevelopment activities in the last few years missed the current cycle completely.

Typically, the first projects out of the ground during a new cycle have the best chance of success. The best way to position an urban infill project to break ground early is to be as far down the predevelopment spectrum as possible when space demand and capital return. While leasing and financing are dependent on larger market forces, the timing of planning and permitting is in the

landowner and developer's control.

The consensus suggests that the current cycle will reach bottom in 2009. To position a project to be ready to accept investment and tenants and break ground early in the next cycle, 2011-2012, it is critical that the planning and permitting process for that project begin now.

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