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New construction turns Boston to boomtown

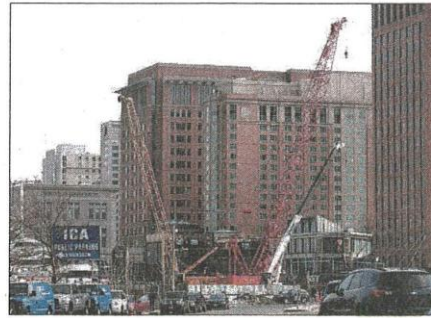
The Seaport district is a frenzy of activity, with billions of dollars flowing into development.

By NADJA BRANDT
BLOOMBERG NEWS

BOSTON – The South Boston waterfront was long a bleak area separated from the rest of the city by the Fort Point Channel, its docks and warehouses recalling a faded shipping past. Now, rechristened the Seaport district, construction cranes dot the landscape as builders put up high-end condominiums, offices and hotels in one of the biggest neighborhood transformations in Boston history.

“The waterfront is an overnight success that’s taken nearly 30 years to come to fruition,” said Brian Kavogian, president and founder of Charles River Realty Investors, which has developed or acquired more than 20 million square feet of real estate in the Boston metropolitan area. “It finally reached a tipping point.”

Boston’s real estate market, often overshadowed by the skyscrapers of New York



KELVIN MA/BLOOMBERG NEWS

Construction cranes pepper the Seaport district in Boston. Strength in life sciences and tech fields, and a growing workforce of college graduates, are spurring the boom.

and government-fueled growth in Washington, is seeing a boom in construction as developers financed with cheap debt seek to profit from a growing workforce of educated young adults and strength in the technology and life-sciences industries.

The office-vacancy rate is among the low-

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est of major U.S. markets and tenants are occupying new space at almost triple the national average.

Construction spending in Boston increased an estimated 37 percent in the year that ended June 30 to \$3.83 billion, the most since 2008, according to the mayor's office. The market is hot enough that some developers are considering building offices without having landed anchor tenants.

Work is planned or already under way on the \$620 million redevelopment of the original Filene's department store property in Downtown Crossing, a \$200 million office tower for State Street Corp. and the \$800 million headquarters in the Seaport area for Vertex Pharmaceuticals Inc. – at 1.1 million square feet, the nation's largest privately funded office construction project.

DRAW FOR YOUNG PEOPLE

"You have a city that has biotech and other thriving industries, and some big-name financial services," said John Garth, managing director at Pembroke Capital Management, a New York-based real estate investor looking to finance apartment construction in Boston. "It's a huge draw for young people, and that creates lots of demand for rental apartment, as well as new office space and other construction."

The fourth-quarter office-vacancy rate in the Boston metro area was 10.9 percent, ranking it among the best-performing big markets in the country and less than the 15.4 percent nationwide average, according to brokerage CBRE Group Inc.

Net absorption – the increase in occupied space – was 2.8 percent in 2012, compared with 1 percent nationwide. That's helping to spur building while construction in much of the rest of the country stagnates, said Arthur Jones, senior managing economist at the Los Angeles-based company.

"The fundamentals in Boston are favoring the move into

another construction cycle," he said. "Vacancies are low, rents are improving, and job growth is steady."

Boston has attracted major office owners including Tishman Speyer Properties and Blackstone Group. The largest U.S. office real estate investment trust, Boston Properties Inc., is based in the city and owns marquee properties such as the John Hancock Tower and Prudential Center.

Greater Boston is home to 50 universities and colleges, among them Harvard University and Massachusetts Institute of Technology, which provide a pipeline for graduates into the job market. In 2010, Boston had the biggest ratio of 20- to 34-year-olds among the 25 largest cities in the United States, at 35 percent, according to a report from the mayor's office.

Boston's cumulative job growth, led by scientific and technical services, is projected to be 7.9 percent from 2011 to 2016, exceeding the state's 7.4 percent, according to the report. The city is home to financial firms such as Fidelity Investments, the second biggest U.S. mutual fund company, and State Street, the third largest custody bank. Neighboring Cambridge, which has also seen a spike in new development, hosts employers such as biotechnology company Biogen Idec Inc. and technology giants Amazon.com, Google and Microsoft, said Peter Meade, head of the Boston Redevelopment Authority.

"In the last 24 months, suburban tech firms have been looking to relocate into town," said Andrew Hoar, president and co-managing partner at CBRE/New England, a joint venture partner with CBRE. "For many other markets it's the other way around. The young graduates in this town don't want to commute."

RACE TO CATCH UP

The race to catch up with the city's growth is evident in the Seaport area, where about 3 million square feet of buildings is under construction, according to the redevelopment authority. The waterfront neighborhood,

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for decades isolated by Fort Point Channel and an elevated stretch of Interstate 93, has become more accessible after the Central Artery/Tunnel Project – otherwise known as the Big Dig, and completed in 2007 – rerouted the highway below ground.

“The opening up of areas like the waterfront is expanding opportunities to have developments occur in a way we have not seen in many years,” Joseph Fallon, founder and chief executive officer of Fallon Co., developer of the Vertex Pharmaceutical buildings, said in an interview at his office in the Seaport, behind him the expansive view of Boston Harbor –

and cranes.

TOP MENINO PRIORITY

The neighborhood, long targeted for growth, was slow to develop. Fidelity Investments and Drew Co. built the Seaport World Trade Center there in 1986, joining Anthony’s Pier 4 restaurant, a local landmark. A larger-scale overhaul was hampered by the lack of infrastructure, a common vision for the area and economic downturns, according to the redevelopment authority’s deputy director for planning, Richard McGuinness. Development of the district has been a top priority of Mayor Thomas Menino during his almost 20 years in office.

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Fallon plans to complete the two Vertex structures in the waterfront area by the end of this year and has an adjacent parcel that may accommodate a third building. It will build a residential project if Vertex doesn't exercise the option to use the land, Fallon said.

Vertex, which has added more than 500 employees in Massachusetts in the past five years, is currently based in Cambridge.

The company was attracted to the Seaport's proximity to Logan International Airport and different types of transportation, as well as its mix of new businesses settling into the neighborhood, said Zach Barber, a spokesman for the drug-maker.

"The site and the neighborhood was exciting for us to be an anchor tenant in," Barber said.

New restaurants are popping up, such as Blue Dragon, an Asian eatery from Ming Tsai, host of the PBS cooking show "Simply Ming."

The outdoor Bank of America Pavilion showcases music events, while a convention center, completed in 2004, draws a regular stream of visitors, as does the Institute of Contemporary Art, which relocated from the Back Bay in 2006.

Drew Co. is building Waterside Place, a \$120 million mixed-use project in the Seaport area that it expects to complete by year-end. It will include apartments, offices for startup companies and ground-floor retail, according to the authority.

Skanska USA, the American division of a Stockholm-based construction and engineering firm, in December acquired a parcel of land in the Seaport district from Morgan Stanley for \$33 million and is planning an office building to accommodate spill-over demand from low-vacancy areas like East Cambridge, said Shawn Hurley, executive vice president.

"The office market in East Cambridge is very healthy and has very little vacancy," Hurley said in an interview at Skanska's Boston office. "This area becomes an alternative."

The risk of the accelerating growth in areas like the Seaport and Cambridge is that rising rents may drive tenants back into the suburbs, according to a fourth-quarter report by Cassidy Turley, a commercial real estate firm.

In the Seaport, office rents for top-quality buildings have risen to \$54 a square foot from \$48 a year ago, putting rates on par with the historic Back Bay area, the brokerage said.

NO LONGER AFFORDABLE?

"While tech companies and startups are primarily responsible for South Boston's renaissance, we are watching to see what happens when their leases are up for renewal," Cassidy Turley said in a statement. "The Seaport may no longer be the affordable option it was even just 18 months ago."

Millennium Partners is slated to redevelop the Filene's department store property in Boston's Downtown Crossing into an office and retail structure and build a new mixed-use tower with about 500 residential units next to it.

The New York-based company took over the project from Vornado Realty Trust in 2012 after it had stalled for four years, and plans to start construction "before the summer," according to Anthony Pangaro, who is overseeing the project for Millennium.

"People want to be in diverse neighborhoods, with lots of activity," Pangaro said in his downtown office, filled with renderings of the project and maps of the area. "The waterfront is one of those areas, and downtown is incredibly diverse."

John Drew, founder of Drew Co., said "the biggest national institutions" are looking to invest in Boston. He has been involved in projects in the city for 30 years.

"I've been through a few cycles and the robustness of the recovery and construction activity here today is more than I have seen in the past," he said. "It's all this money following projects here. The access to capital here today is pretty phenomenal."