

# Market Map: 4 Trends In Boston Real Estate Deals

By Natalie Rodriguez

Law360, New York (September 28, 2015, 4:16 PM ET) -- In Boston, many in-demand office and life sciences submarkets have been getting squeezed to single-digit vacancy rates, while rents and land prices are on the rise throughout the city.

## NOTABLE TRANSACTIONS

- » **Alnylam Pharmaceutical struck a 395,000-square-foot lease at 675 W. Kendall St. for a new headquarters space that is expected to be available in 2018.**
- » **Houghton Mifflin inked a lease deal for 160,000 square feet at 125 High St.**
- » **TripAdvisor recently moved into a new 381,000-square-foot headquarters space in Boston suburb Needham.**
- » **Oxford Properties dropped \$114.5 million to pick up 745 Atlantic Ave. in Boston's central business district from Beacon Capital.**

Sources: DTZ, Transwestern  
Image courtesy of BioMed Realty

Rents in certain areas, such as Cambridge, are set to hit new highs as top companies elbow for limited available space, and there has been a wave of investment sales activity and residential development to hit Boston that is quickly changing the dynamics of various submarkets.

These changes, along with a wave of consolidations among local brokerages, is creating a new deal landscape that real estate attorneys need to familiarize themselves with. Here are four major property trends in Boston that attorneys should know about:

### Office and Life Sciences Space Is Tight

The greater Boston area holds the largest concentration of life science researchers in the country with more than 3.75 million square feet of needed space, according to a 2015 market report on the life sciences industry by property brokerage JLL. And many of the top companies are jostling to expand or take new space, with at least seven tenants looking for blocks of more than 50,000 square feet, according to real estate services firm [DTZ](#).

In submarkets like Cambridge, which includes the prized Kendall Square area across from Harvard Square, rents are on a path to approach more than \$90 per square foot due to hot demand, according to Eric Allon, a real estate partner with [Bernkopf Goodman LLP](#). Vacancy rates for Cambridge both Class A and Class B office spaces have dropped to below 5 percent, according to recent DTZ data.

"When the market gets that hot, it tilts to the landlord's favor," said Allon, pointing to a recent example of a Cambridge landlord sending out a commercial lease to two prospective tenants of a much-desired space. The landlord essentially said that the first one to return the lease signed would get the space, according to Allon.

But that kind of landlord-favorable atmosphere is more the exception than the rule when looking at Boston's larger office market, where top tenants continue to hold significant sway in the higher end of the field.

"There are many landlords who are listening carefully to creditworthy tenants leasing significant space," Allon said. "These landlords are making certain market concessions to secure that tenant if the marketplace has more opportunities for that tenant to go to."

And the lack of space in certain central business district submarkets has spurred tenants to explore lab space outside of downtown, and suburban lab space rents have subsequently been on the rise, growing 50.8 percent over the last year in the Northern suburb market to \$25.30 per square foot, according to JLL.

In general, the Boston-area office market is expected to remain robust through at least 2016, according to Allon.

### Construction Cranes Have Returned

Boston's construction market, like many other markets across the U.S., essentially hit a red light with the recession. But a number of real



[Houghton Mifflin](#) plans to move its headquarters to 125 High St. in Boston after recently inking a 160,000-square-foot lease deal, one of many major lease deals to have hit the Boston area in recent months.

(Credit: [Tishman Speyer](#))

(Continued on page 2)

*(Continued from page 1)*

estate players are now trying to make up for lost time.

"For example, what used to be parking lots in the Seaport not too long ago in this area are now giving way to large developments, such as Seaport Square, where [developer] John Hynes is building 350,000-square-foot towers," Allon said. "In January of 2009, I do not remember seeing a crane in Boston and now they are everywhere."

Among some of the notable developments underway are the new headquarters for sports apparel company [New Balance](#) in Brighton, along with residential and retail development that is occurring at the site of a former Filene's department store building, which for years was a city eyesore after the previous owner's project stalled, leaving a hole in the ground, according to Allon.

Much of this is spurred by the strong office leasing activity, which has recently seen a number of more-than-100,000-square-foot deals gobble up available space.

"With solid market conditions, a significant number of tenants in the market for over 50,000 square feet and large blocks of centrally located space rapidly becoming extinct, we are watching for the re-emergence of speculative construction," DTZ said.

Along with the office and lab space development, there has also been a wave of high-end residential construction, according to Allon. But the infrastructure of certain areas has not been able to keep up with the quick pace of construction.

"The development that has occurred in the last few years in the Seaport was anticipated to occur in 10 years. With that kind of development, there have been real traffic problems," said Allon, noting also that neighborhood amenities in the Seaport such as pharmacies and tailors have not yet followed many of the residential developments. "There are not real neighborhoods that have developed."

And with so much supply flooding the market, there is concern for projects coming out of the pipeline in 2016 and 2017. "Already, I've heard of landlords making certain apartment concessions," Allon said.

There is a strong belief, however, that solving Boston's infrastructure issues are a top priority for local officials, especially after last winter's snowstorms effectively shut the city down for several weeks. And even though the city failed with its Olympic bid, there is an anticipation that much of the infrastructure upgrades planned as part of that, including upgrades in the Seaport area and along the Massachusetts Bay Transportation Authority Silver Line, will still see the light of day.

### **Property Trades Are Coming Fast**

In the last year, nearly a quarter of Boston's property inventory has traded hands, according to DTZ data.

"People who bought a few years ago are now trading again," said Allon, noting that many sellers are scoring sales prices even higher than what were considered top prices a few years back.

Deals tend to go through competitive bid auctions, according to Allon.

Many taking over office towers are then repositioning the assets to maximize cash flow in higher rents, which has helped push Class B office per-square-foot rents into the \$40s, according to DTZ.

### **Consolidation Is Afoot**

The property dealscape is also changing in terms of the affiliation of many key negotiators, as the consolidation movement has hit the commercial brokerage business.

"Right now, you have musical chairs of the capital markets teams in many different brokerage groups and the consolidation of many brokerage firms," Allon noted.

Much of the consolidation is spurred by the brokerages' efforts to position themselves for larger deals, which in turn is an opening for many law firms to likewise position themselves for those opportunities.

"There are several players in the brokerage business who are dealing with the largest deals in the area, and these brokers and their landlord and tenant clients need sophisticated counsel who have experience dealing with the complexities of these transactions," Allon said.

--Editing by Katherine Rautenberg and Philip Shea.