

Columbia Point Master Plan

Memorandum: Market Observations

To: Crosby | Schlessinger | Smallridge

From: Byrne McKinney & Associates, Inc.

Date: April 3, 2008

SCOPE OF INVESTIGATION

Goals and Objectives

- To provide a market context within which to develop effective Master Plan strategies for the Study Area.
- To profile the current market opportunities and challenges for new development in the Study Area along with a sense of the conditions necessary for opportunities to be realized.
- To anticipate the likely development response to certain site specific opportunities in the Study Area and to the specific recommendations of the Master Plan.

Effective Dates of Analysis

- Opinions expressed by this memo reflect the market environment and trends evident as of March 2008 and are subject to future fluctuations in the market and Study Area conditions.

SUMMARY HIGHLIGHTS

General Observations

- The City of Boston and the region have shown significant growth over the past five years in virtually all markets as measured in terms of sales volumes, resident and employee expenditures, # of visitors, residential units built, occupied commercial square feet, etc.
- This growth arises largely from the City's participation in a regional economic expansion experienced since the end of the 2000 to 2002 recession.

- While corresponding changes in the Study Area have been modest during this period, the neighborhood has many positive attributes and is poised for growth with a number of significant development initiatives in the planning stages.
- The most significant competitive advantages of the Study Area from a market perspective include:
 - Accessibility: Redline and highway
 - Amenity Value: Direct waterfront and water views
 - Demand Drivers: UMASS, Kennedy Library, proximity to Boston
 - Competitive Alternative To: South Boston Waterfront (better value) and Marina Bay (better accessibility)
- The most significant challenges include:
 - Relative isolation from the rest of the City
 - Traffic congestion at gateways
 - Vulnerability of the location in a volatile marketplace

Office Market Observations

- The Study Area competes in the Rte 93/Rte 95 corridor office market which stretches from Boston to Quincy on Rte 93 and from Quincy to Milton on Route 95.
- The market is improving as evidenced by lower vacancy rates (under 10%) and has been experiencing rising rents (mid-\$20's).
- The neighborhood is well positioned to satisfy the requirements of new office demand with its excellent T and highway access.
- Despite the positive locational attributes, the Study Area's existing rent levels are not sufficient to support the cost of new privately financed office construction at this time.
- Speculative, new privately sponsored office development is seen as unlikely in the current market.
- A build-to-suit strategy aimed at identifying and executing binding lease agreements with prospective tenants in advance of any commitment to construct new office space could offer a viable, alternative approach to meeting the market demand.

Retail Market Observations

- The Study Area competes in a community serving retail market that extends into the neighborhoods of South Boston and Dorchester, with some potential for capture within North Quincy.
- The neighborhood is well positioned to capture additional retail demand with its excellent highway access and visibility.
- To succeed, new retail development in the Study Area must be designed to capture demand from all available sources including captive consumers within the neighborhood as well as consumers from outside the Study Area (residents, employees, visitors, etc.).
- To this end, new retail development of scale will require sufficient parking to accommodate shoppers from beyond the walking proximity of the neighborhood.
- Retail development is likely to perform best within the context of a mixed-use program that can generate additional sales from onsite users.
- The potential for new retail development is seen as supportable in the current market.

Residential Market Observations

- The Study Area competes in a housing market defined by its location on the water and its connections to the north and south by T and highway - extending from South Boston to Dorchester to Quincy.
- The market is relatively stable from a pricing perspective for both rental and for-sale product, albeit with slowing absorption in the current market and continued volatility on the horizon.
- The neighborhood is well positioned to satisfy the requirements of new residential demand with its excellent T and highway access providing a value alternative to the South Boston waterfront, and strong, relatively captive demand sources such as UMASS.
- The opportunities for new rental apartment development in the Study Area are seen as stronger than condominium development potentials in the current market environment.

- New market rate residential development whether rental or ownership will require scale and quality sufficient to support a competitive package of recreational and service amenities.
- Residential development is likely to perform well within the context of a mixed-use program that can benefit from the environmental quality created such a program.
- The potential for new residential development is seen as supportable in the current market.

Hospitality Market Observations

- The Study Area competes within the business/tourist class hospitality market which extends south along Rte 93 from Boston to Braintree.
- The market is relatively stable from a revenues and occupancy perspective with increased volatility expected near term as a result of the current economic downturn.
- The neighborhood is well positioned to satisfy the requirements of new hospitality demand with its excellent access (T and highway) and visibility, providing a value alternative to downtown Boston with waterfront views and relatively captive demand sources such as UMASS.
- Hospitality development is likely to perform well within the context of a mixed-use program that can benefit from the environmental quality and amenities created such a program.
- The potential for new hospitality development is seen as supportable in the current market.

Industrial Market Observations

- The Study Area is not seen as a competitive location for new industrial development.
- That said, the neighborhood is well positioned to satisfy the captive, ancillary demand that might be generated by UMASS and other existing users within the Study Area (archival storage expansion, marine research, communications, broadcasting, etc).

Development Observations

- The markets are currently volatile, with significant uncertainty regarding the depth of the economic downturn, future financing availability and the impacts of anticipated construction cost escalations on project feasibility.
- The heightened risk and cost exposure in the current market place creates a need to reduce risks and costs elsewhere in the development process.
- Projects will have to be more straightforward and predictable from a permitting perspective, better designed, more marketable, more competitive, and in general, more productive economically, to offset the growing market and financial risks.
- This has ramifications for the development sites currently being planned and proposed. To succeed, these projects will need to:
 - Preserve and improve on existing uses within the Study Area.
 - Orient new development to the T, to the water, to the highway, and to existing Study Area institutions, leveraging the value of in place assets.
 - Allow for sufficient height and density to permit quality construction and to defray the cost of critical public improvements.
 - Allow for a broad mix of uses that generate synergies and leverage internal demand among uses and users.
 - Improve connections to the Study Area from the rest of the market area (pedestrian, vehicular, transit).
 - Improve connections to the waterfront from the rest of the market area (pedestrian, vehicular, transit).
 - Acknowledge the impacts of TOD while recognizing the need for sufficient parking for development to be marketable and financeable.

Research Sources

- Government
 - City of Boston Redevelopment Authority
 - City of Boston Assessing Department

- Official Statement of the City of Boston - General Obligation Bond Offering
- Massachusetts Department of Employment and Training
- Federal Reserve Reports

- Reference Materials
 - CLARITAS, Inc. - Market area demographic Information
 - New England Economic Project - Economic Reports
 - CoStar Information Group - Property Sales and Leasing Data
 - Jones Lang LaSalle - Office & Industrial Reports
 - Cushman & Wakefield - Office & Industrial Reports
 - CBRE/Richard Ellis - Office & Industrial Reports
 - Finard & Co. - Retail Reports
 - PKF - Hospitality Reports
 - Pinnacle Advisors - Hospitality Reports
 - REIS Reports - Apartment Reports
 - LINK & MLS - Housing Sale Reports
 - Korpacz & Associates, Real Estate Investor Survey
 - Building Owners and Managers Association (BOMA) Industrial Report
 - SOIR - Industrial Report