Boston's life science boom is poised to push housing prices even higher

BUYING NEW DEVELOPMENTS NEWS SPRING HOUSE HUNT

. Lesley Becker for The Boston Globe; Adobe Stock

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Life science and tech companies are the driving force behind many construction cranes currently soaring over Boston.

The crashing wave of new labs and custom-built offices will benefit the region economically during the recovery from the pandemic, but it also threatens to send already sky-high housing costs even higher.

"It's almost impossible to build our way out of the demand that we have now for housing,'' said **Michael Procopio,** CEO at Procopio Cos.

Greater Boston was already in the depths of a housing shortage before the pandemic. The development community's enormous acceleration of life science and lab development during the pandemic, as well as the ongoing tech boom, will only exacerbate that supply-demand imbalance.

Office growth in neighborhoods like the Seaport during the last real estate cycle was largely fueled by bringing existing jobs into the urban core from other parts of the region — Reebok, PricewaterhouseCoopers, and law firm Goodwin are three examples — but the ever-expanding pipeline of lab and life science development banks on job creation and, therefore, new participants in an already crowded housing market.

"In those past office growth cycles, there was definitely a pushing around of the workforce because Boston just doesn't grow that quickly,'' said **Michael Boujoulian**, managing director of

Alliance Residential Co.'s New England office. "With all this lab construction, I do think it's different.''

Greater Boston's existing lab market within the Route 128 corridor is 31 million square feet, but an additional 21 million square feet have been approved, according to research by **Hunneman**, a commercial real estate firm.

The entire pipeline isn't likely to hit the market anytime soon. Just shy of 8 million square feet of that is under construction or in the process of getting converted from office space or other uses into labs, but there are many life science companies in the area in rapid states of expansion.

The development pipeline stretches beyond the typical life science confines of East Cambridge. Developers want to put millions of square feet of lab development into submarkets like the Seaport, Dorchester, Somerville, Watertown, and along Routes 128 and 2. Moderna, behind one of the three coronavirus vaccines in the United States, plans to more than **double the size** of its 300,000-square-foot Norwood manufacturing facility.

"There is a lot of capital flowing into this sector, and that has been part of the growth story,'' said **Elizabeth Berthelette**, a director of research at Newmark, a commercial real estate advisory firm. "More funding means more growth and more jobs.''

On the one hand, that's a win for condo and apartment developers, who suddenly have more markets for new projects. Banks like to hear a potential project is in the vicinity of a life science or tech development with high-salaried workers.

"It just helps out with a lot of the fundamentals, especially when it comes to lending and trying to get construction funding for the multifamily project,'' said Tucker White, director of research at Hunneman. "Lenders look at the potential upside of having all those high-paying jobs.''

On the other hand, life science developers typically pay more than apartment or condo developers, pushing many would-be residential projects farther out of the city.

"If you're anywhere along the corridor where companies want to be in Greater Boston, multifamily developers can't compete,'' Boujoulian said.

Boujoulian's development strategy in the past was to buy obsolete commercial properties and convert those into residential developments in areas like Watertown. But lab developers are adopting a similar strategy, even if the area isn't zoned for life science projects. The market is so hot that life science-focused developers even waive zoning contingencies.

"I had a $30 million offer for a great piece of property for a housing development, but I had a contingency to get the permits. Someone showed up and, not only did they waive the contingency, they actually bid more,'' Boujoulian said. "It's like a northwestern arrow right out of our metro core. That's where the housing groups are really struggling to keep up.''

That pushes developers to either charge significantly higher for residential units or push out beyond the urban core. Office and lab developments dominate the real estate news cycle in hot neighborhoods like the Seaport, while residential projects, particularly anything outside the luxury condo orbit, are announced less regularly.

“It’s getting harder for us to get our product where our customer wants it,’’ Boujoulian said.

The housing crunch may sound familiar to West Coast tech hubs like the Bay Area or Seattle, often seen by local housing advocates as harbingers of what Boston might look like if the tech industry became even more of a dominant force in the regional economy.

Seattle may have been the birthplace of grunge, but its tech ties to massive companies like Microsoft and Amazon fueled a major surge in home prices. Seattle home prices at the end of February reflected a nearly 61 percent increase since early 2016 — well above the nearly 36 percent national average, according to the most recent available data from the S&P CoreLogic Case-Shiller Home Price Index.

When Amazon announced it was looking for a second headquarters in 2017, critics pointed to Seattle’s surging home prices as a reason to shy away from embracing the e-commerce giant. Before 2010, Seattle rents were roughly in line with national averages, but by 2017, they had increased 41.7 percent compared with a nearly 18 percent jump nationally, Builder-Metrostudy reported in 2018.

Those fears played out in New York City when Amazon announced it was one of two markets selected to house its second headquarters. The Seattle-based tech company eventually dropped New York to focus solely on the other market, Northern Virginia, following heated political blowback around economic incentives as well as the impact on neighborhoods the company might have.

Back in Boston, there’s less of a fear of how much worse it could get in terms of housing costs — largely due to the unfortunate truth that those are already sky-high. Greater Boston generally ranks shortly behind the Bay Area and New York City, respectively, in terms of home costs and rent.

At least one developer isn’t abandoning the idea of incorporating housing closely into a life science, tech, and lab ecosystem.

“It’s a little bit of a chicken-and-egg scenario of what comes first: residential or commercial,’’ said Conor Brennan, managing director of investment at Bulfinch Cos., the developer behind Cambridge Discovery Park by the Alewife MBTA station. “What you’re hoping to do is have a project that over time can bring all those elements in because it’s just going to create a more sustainable ecosystem for employers to keep talent, attract talent, and have people really like coming to work.’’

Others see it more as an opportunity for markets in places like New Hampshire, southern Maine, and Central Massachusetts to generate the kind of housing supply communities closer to Boston's urban core shy away from approving.

"If you can't get the housing approved, you've got no place for this demand,'' Procopio said. "I think those communities desire the housing, and they want to pull people in. They'll be very incentivized to provide some of that housing that's required to meet future demand from all these life science clusters.''