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CITY REVIEW

Boston

New development, renovation, high absorption keep market stable; downtown office market loses tenants to suburban developers

By Nicholas G. Pappas Boston Correspondent

Downtown Boston, once the Goliath of high-rise office towers, is now entering the David era.

But don't think for a minute that the city's move toward smaller office buildings is a sign that an unexpected shot has brought the commercial office giant staggering to its knees. With 6.26 million sq. ft. of Class-A office space among the 9.7 million sq. ft. scheduled to become available from later this year through 1990 — and a projected absorption rate of 1.6 million sq. ft. each year — the Hub is expected to retain its spot as one of the best commercial real estate markets in the country.

Just ask the money men who have invested millions of dollars to develop office projects in a city rated by some observers as the fourth most expensive land market in the country, behind Washington, D.C., New York and San Francisco.

"The Boston market is very well in

Boston's skyline as it will look upon completion of the $270 million International Place, (left of State Street Bank), Boston's largest office complex. The project is being developed by The Chiofaro Co. of Boston.

balance,'' says Edwin N. Sidmund, president of the Beacon Cos., which is developing a $193 million office/hotel/condominium project called Rowes Wharf on the edge of the city's financial district. ''I think the new space will be absorbed nicely without doing anything detrimental to occupancy rates or vacancy rates.''

''We've got a city here that continues to chug along absorbing from 1.3 million sq. ft. to 1.7 million sq. ft. per year since 1979,'' agrees John B. Hynes III, operating partner of the Dallas-based Lincoln Property Co., which is building a 21-story office-retail complex at 101 Arch St. ''We're absorbing 1.5 million sq. ft. (this year), the average since 1979.''

''The environment in Boston is probably the most attractive anywhere in the country in the development community and the financing community,'' adds Kenneth S. Moczulski, project manager for Gerald D. Hines Interests of Houston, which is developing a $170 million office-retail project with New England Life Insurance Co. in the Back Bay area. ''From being able to achieve reasonable yields and find tenants, it's probably one of the better environments in the United States.''

While many major cities across the country are singing the blues of high vacancy rates and sluggish absorption, Boston developers and investors are whistling all the way to the bank.

Office vacancy rates, which are now around 8%, are expected to rise only a few points before returning to current levels — or lower — even though more than 9 million sq. ft. of new, converted and major renovated office space will come on line through the end of the decade.

The Boston Redevelopment Authority (BRA), considered to be among the tougher municipal development bodies in the country, projects vacancy rates dipping to 8.15% by the end of this year, peaking at 12.38% in the fourth quarter of 1988, and then returning to 8.97% by the end of 1990.

Some real estate officials are even more bullish on vacancy rates.

''I'm predicting that the vacancy rate for Class-A office space on Jan. 1, 1990, will be under 4%, which would be the healthiest in the entire nation,'' says Lawrence A. Bianchi, president of the Codman Co.

Bianchi uses annual absorption figures to argue his point. Historically, he says, the city averaged 1 million sq. ft. of absorption from 1972 to 1983 before ballooning to 1.7 million sq. ft. in 1984 and falling slightly to 1.5 million sq. ft. last year. This year, he says, 919,000 sq. ft. already had been absorbed by July 1.

''Any computations using this kind of figure as a projection will tell you that we are not going to be hit with a glut of space unless the entire economy of this region falls into Boston Harbor — and I don't see it happening,'' he says.

Varied industries feed local boom

Indeed, the economy is cited by many as the backbone of Boston's building boom. A healthy blend of accounting, banking, high tech, insurance, law, money management and telecommunications firms makes the city immune to the type of single-industry bust that slipped into Houston and Dallas in the wake of the oil embargo of the 1970s.

Secondly, the city has been able to draw on a large pool of talent from the many accredited colleges and universities within a 25-mile radius — Harvard University and the Massachusetts Institute of Technology among them. It is students from schools like these, for example, who are responsible for launching start-up firms in high tech that create jobs and an additional demand for office and R&D space.

And, of course, a 4% unemployment rate doesn't hurt, although it has made competition keen for clerical workers.

This healthy climate has sparked the interest of local developers and lured national firms like Lincoln Property and Trammell Crow Co. of Dallas, Gerald D. Hines Interests of Houston and Jaymont Properties of New York. All have found the Boston and suburban office market to be worth an investment.

The Dallas-based Lehndorff Group marks its entry into the Boston market with the purchase of the 20-story, 332,449 sq. ft. Paine Webber building at 265 Franklin St. The building, purchased in April, is 100% leased.

One of the more considerable investments in the city's financial district, however, has been made by a local firm, the Chiofaro Co., which is developing International Place in a joint venture with the Hillman Co. of Pittsburgh. The unique design calls for intersecting round and rectangular structures of 19, 27, 35 and 46 stories surrounding a large, glass-covered courtyard.

International Place, designed by architects Philip Johnson and John Burgee of New York, is being built in two phases. The first phase, topped off in early July, will house 1 million sq. ft. of office space, 25,000 sq. ft. of retail space and a 430-car underground garage. A second phase will contain another 700,000 sq. ft. of office space, 25,000 sq. ft. of retail and 400 more parking spaces.

One International Place, the first phase, is scheduled to be ready for its first tenants in January 1987. More than 33% of the space had been preleased before last spring by Arthur Anderson & Co. (120,000 sq. ft.); Nutter, McClennen & Fish (120,000 sq. ft.); and Hill & Barlow (57,000 sq. ft.). Two International Place, the second phase, is targeted for opening in the first quarter of 1990.

The Teachers Insurance and Annuity Association is providing permanent financing for the $270 million first phase. A consortium of 10 banks led by the Bank of Boston provided construction financing for the project. The general contractor is McCarthy of Boston.

Another waterfront project scheduled to open in 1987 is Rowes Wharf, the Beacon Cos.' 665,000 sq. ft. development that combines first-class office space with luxury condominiums and a fancy hotel.

The project, under construction on 5.38 acres of land and water, will contain 330,000 sq. ft. of office space, 100 condominiums and a 230-room hotel with amenities ranging from concierge service to a water taxi link to Logan International Airport.

''Rowes Wharf is a one of a kind — and once in a lifetime —project being built on the last parcel of open space in the financial district on the Atlantic Ocean,'' says Beacon's Sidman.

''Boston is probably the only city in the United States where the financial district meets the sea and is not separated by several blocks,'' he says. ''The combination of proximity and Triple-A location is an unbeatable combination.''

Monique Doyle Spencer, vice president of communications for Beacon, says 98 of the 100 condo units sold out in eight weeks earlier this year. Prices ranged from $330,000 for the smallest (750 sq. ft.) to ''well over $1 million'' for the largest (2,800 sq. ft.).

The Boston Harbor Hotel at Rowes Wharf, which is scheduled to open ahead of the offices and condos, will feature a 3,800 sq. ft. boardroom, a 262-seat restaurant and cafe, and Foster's Court, an archway with a copper-domed observatory providing views of Boston Harbor and the financial district.

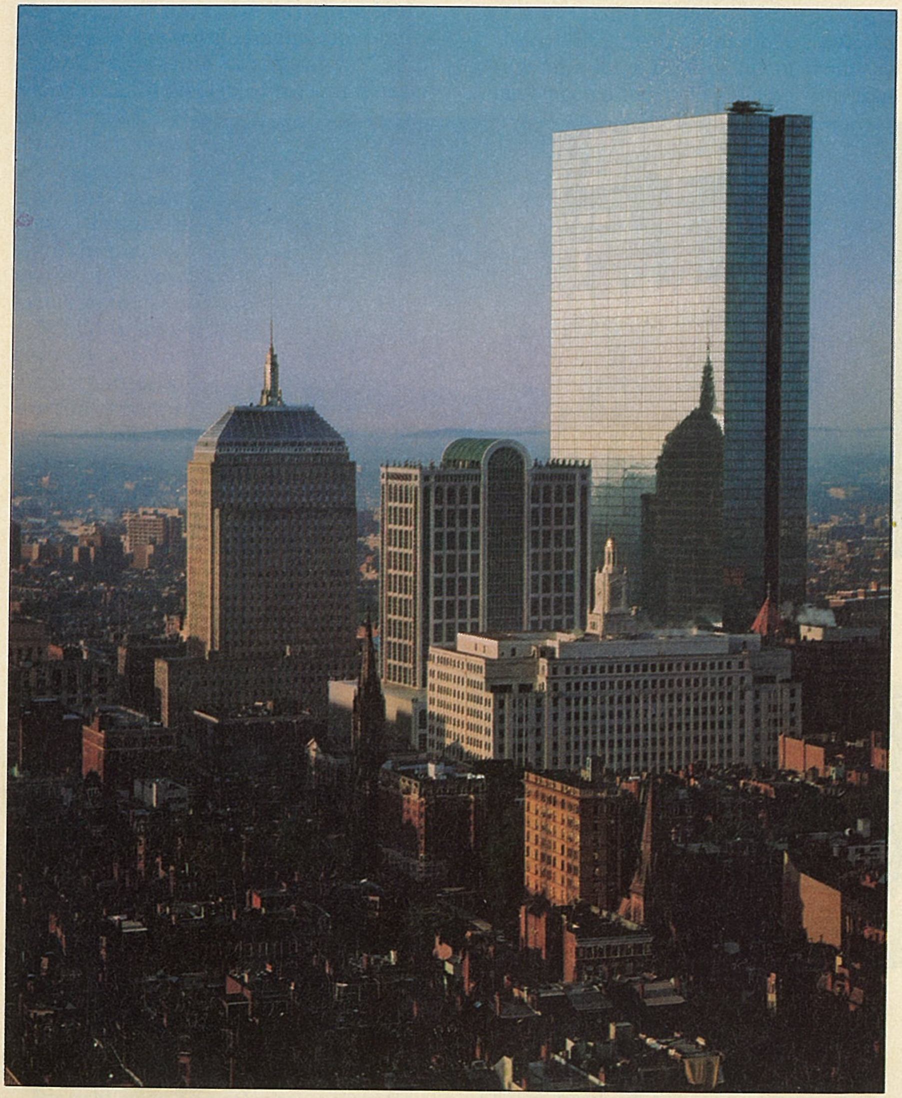
Rowes Wharf is a joint venture of the Beacon Cos. and The Equitable, whose investment is part of its $2.7 billion pooled real estate fund for more than 270 pension fund clients. The project was designed by the architectural firm Skidmore, Owings & Merrill of Chicago and is being built by Beacon-O'Connell, a co-venture of Beacon Construction Co. Inc. and Daniel O'Connell's Sons Inc.

Not all the building activity is taking place in the financial district, either. In the Back Bay, Hines and New England Life are developing a two-phase office-retail complex at 500 Boylston St.

The first phase, which is estimated to cost $170 million, will consist of 650,000 sq. ft. of office space, 75,000 sq. ft. for retail and 600 below-grade parking stalls. The 25-story project is now under construction and scheduled to open in the first quarter of 1988 with New England Life becoming the primary tenant with 220,000 sq. ft. The second phase, which won't begin until the completion of the first, will house 470,000 sq. ft. of office space and another 30,000 sq. ft. for retail.

Johnson and Burgee, the same team that designed International Place, are the architects for the project. The general contractor is a joint venture of Dugan & Myers of Cincinnati and Bond Brothers of Everett, Mass.

Other large-scale office projects scheduled to open in 1987 and 1988 in the heart of the financial district include 99 Summer St. (240,000 sq. ft.), 75-101 Federal St. (550,000 sq. ft.), 150 Federal St. (527,000 sq. ft.), 101 Arch St. (358,000 sq. ft.) and 75 State St. (700,000 sq. ft).



Construction has begun on the $170 million first phase of 500 Boylston St., Boston. The 25-story building will have 650,000 sq. ft. of office space and 75,000 sq. ft. of retail space. Completion is set for early 1988.

99 Summer St., a $55 million development, is scheduled for completion in January 1987. The 20-story, 270,000 sq. ft. building is being developed by Richard H. Rubin Co., Washington, D.C. The building will contain 9,000 sq. ft. of retail space and 260,000 sq. ft. of office. More than 42,000 sq. ft. of the building has been preleased, according to the exclusive leasing agent for the project, Ryan Elliott & Co. Inc., Boston.

75-101 Federal St. is being developed at a cost of $125 million by Franklin Federal Partners of Boston. The project includes construction of a new 31-story office tower at 101 Federal St. and renovation of an adjoining 21-story, 1930s structure at 75 Federal St. The renovated building will be joined at the lobby level and on floors three through 11 with the new structure.

101 Arch St. also involves the renovation of an existing building. An 1873 department store, vacant since 1980, is being renovated by Franklin Place Development Associates, a joint venture of Metropolitan Life Insurance Co. and Lincoln Property Co. The developers have agreed to keep the original store front of the historic building while expanding it to 430,000 sq. ft. of retail and office space on 21 floors.

125 Summer St. is a $100 million project of A.W. Perry Inc., Boston, and the Boston office of New York-based Jaymont Properties Inc. The development will include renovation of the storefronts of four existing buildings that wrap the site and the construction of a 23-story, 483,000 sq. ft. office tower.

While developers certainly stand to gain by the introduction of new office space into such a demanding market, real estate executives believe tenants may have some new leverage when negotiating rental concessions. The competition among the new office towers for tenants is expected to be intense.

"The landlord won't have to give away the store, but he won't have the phenomenal profit of a few years ago," says Frank J. Nelson, assistant vice president of downtown leasing for Cushman and Wakefield. "They will have to give free rent and be real responsive, which hasn't been the case in the past."

"That will be the greatest delivery of

office space in the history of this city at basically one time,'' says Codman's Bianchi of the 4 million sq. ft. of new space that will become available in 1987 and 1988. ''And unquestionably the developer will be negotiating like crazy to attract tenants during that period.''

Bianchi estimates that asking rents for the new towers will be anywhere from $8 a sq. ft. to $10 a sq. ft. higher than the last wave of first-class office space, which was priced in the $30s. Land costs are more expensive, he says, so higher rents are needed to ensure an adequate return for the developer.

''It's just going to get more expensive,'' he says. ''Forty-plus per sq. ft. dollar rents will become the common rent on leases signed from, say, late 1987 through the balance of the decade. And you will see buildings — Rowes Wharf, 75 State St. and I'm sure the top floors of International Place — in the $50-plus per sq. ft. category. It will be interesting to see when the first $50 per sq. ft. rent gets signed in the city.''

Yet, real estate executives don't believe landlords will be able to command those rents without giving up something in return. Free rent periods, building improvements and equity deals are among the options available to tenants today.

''The major, major tenants are looking in 1987 and beyond at anywhere from three months to nine months free rent as an average,'' says Peter Brown, senior vice president at Peter Elliot & Co.

Brown says unlimited building standards, room for expansion and lease renewals will be among the concessions debated across the negotiating table.

The standard lease is now around five years with a five-year option, he says, although there are some 10-year leases around. In both cases, he says, rent increases can come into play in the sixth year.

''The degree of concession will depend on the competition in the submarket,'' says David Almy, president of Leggat McCall/Grubb & Ellis. ''Basically, you do what you have to do to make a deal.''

William E. Bingham, principal consultant at Ryan, Elliott & Co., agrees the influx of new space will put tenants in a better bargaining position. Free rent and equity deals are more likely, however, than rent reductions.

''Typically, you do not see a break in contract rent,'' he says. ''The developers try to stay fairly strictly to their pro forma rent that they're asking. If they're asking $40 a sq. ft., they are more likely to offer free rent before bringing that down to $37 a sq. ft.''

Concessions aside, asking prices for the next wave of first-class office buildings range from the low $30s per sq. ft. to nearly $60 per sq. ft., according to a survey by the Codman Co. Among the new projects and their rents are 99 Summer St. ($32 to $40 per sq. ft.), 101 Arch St. ($32 to $48 per sq. ft.), International Place ($32 to $58 per sq. ft.), 150 Federal St. ($36 to $50 per sq. ft.), 101 Federal St. ($38 to $50 per sq. ft.) and Rowes Wharf ($45 per sq. ft.).

Many buildings will be downsized

While some tenants may balk at these asking prices — concessions or no concessions — it seems clear that those looking for a view from above the 12th floor better move now. The most recent wave of office projects announced this spring by the BRA ranges from seven stories to 12 stories with square footage between 34,600 and 379,000. In fact, all six projects combined have less space (931,834 sq. ft.) than the first phase of International Place (1 million sq. ft.) alone.

The six projects, dubbed Downtown Projects II, were the first to be proposed since the BRA released its draft downtown guidelines in summer 1985. The guidelines, some of which have been formally approved, call for smaller buildings with more public benefits.

The new policy played a considerable role in reducing the height and size of nearly all of the proposals. One project, for example, was reduced in height by a third. Another lost a couple of stories. Still another was scaled down in both height and area.

''No doubt buildings are being downsized,'' says Brown of Peter Elliot & Co. ''But at the same time the quality of what's being built is being substantially increased.''

Brown's firm is the exclusive leasing agent for two of the projects, a 12-story, 150,000 sq. ft. building at 20 Custom House St. and a 10-story, 90,000 sq. ft. building across the road at 21 Custom House St.

Jaymont Properties is the developer of both buildings and has hired Bruner/Cott of Cambridge to design the twin office-retail buildings. The developers also plan extensive improvements to the historic area. Construction is scheduled to begin by the end of the year with occupancy in the first quarter of 1988.

Trammell Crow Co., another national firm, is developing an 11-story office-retail building at 745 Atlantic Ave. The project will contain 157,000 sq. ft. of office space and another 6,400 sq. ft. of first-floor retail space. Tenant occupancy is expected to begin in the spring of 1988.

''Good long-term potential,'' says Arthur (Buzz) DiMartino, a partner in the firm's Boston office, when asked why Trammell Crow decided to develop in the city. ''The economy is diversified.''

The other downtown office-retail projects approved by the BRA last spring were 110-120 Tremont St., a 12-story, 379,000 sq. ft. project; 101 Merrimac St., which will contain 155,000 sq. ft. in 10 stories; and One Faneuil Hall Square, a seven-story, 35,000 sq. ft. building.

Why the move toward smaller buildings by the BRA?

''Part of it has to do with changing economics of the office market,'' says Alexander Ganz, research director for the BRA. ''Very large firms with large pools of clerical workers are moving out of the city.''

A report prepared by the BRA research department earlier this year found that the demand for small office buildings is intensifying. More than half of the city's downtown office employment is linked to small firms in business and professional services that tend to lease space in small new or renovated office buildings, according to the report.

That same growth pattern is not as evident in the few large banking, insurance and money management firms with more than 1,000 employees, which tend to occupy the new and larger office towers. The report found that employment in this segment of the market has been declining.

''The firms with 50 to 500 workers represent the most rapidly expanding group,'' Ganz says. ''They are made up of firms in business and professional services and communications. These are expanding more rapidly than firms in finance.''

Developers expand to the suburbs

''Another reason for the emphasis on smaller buildings in the financial district is to direct large-scale projects into other less developed sections of the city, according to Ralph Memolo, public information officer for the BRA.

Memolo singles out North Station, South Station and Fort Point Channel as key areas where the BRA is trying to encourage development.

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"Clearly, developers know that they are going to get height bonuses in those areas that they won't get elsewhere," he says. While city officials are trying to direct developers into other areas of the city, some firms are looking to get out altogether. This year there has been some significant movement toward the suburbs.

Cabot, Cabot & Forbes, Boston, has completed a 145,000 sq. ft. suburban office project in Burlington, and is developing a 102,000 sq. ft. office building in Hudson, and a 1.2 million sq. ft. sq. ft. office and research and development project in Marlborough.

The Cabot, Cabot & Forbes Business Center Two in Burlington is a five-story office building completed in 1985. Located off Route 128, the building is 40% leased.

The Hudson Business Park is a two-story office building located on a 10-acre lot off the Interstate 290 connector from Interstate 495. The building is 50% leased.

The first phase of the Marlborough Business Centre, located at the intersection of I-495 and I-290, is scheduled for completion in spring 1987. The first phase will include four buildings. The 150-acre masterplanned development will include 1.2 million sq. ft. when completed.

Home Owners Federal Savings and Loan Association, the largest savings and loan association with headquarters in Massachusetts, signed a lease in May for 150,000 sq. ft. at Three Burlington Woods along Route 128 in Burlington.

Three Burlington Woods is the largest of five buildings in the 57-acre Burlington Woods Office Park, developed in a joint venture by the Mugar Group and Finard and Co., two New England-based real estate development firms.

Home Owners Federal retained its corporate headquarters in downtown Boston, but it used the Burlington space to consolidate more than 200 staff people in its administrative and mortgage operations.

Another financial operation to leave Boston for the suburbs is the Commonwealth Mortgage Co., which relocated its corporate headquarters to the Sun Life Executive Park at the junction of Routes 9 and 128 in Wellesley Hills. Like Home Owners Federal, it will retain its Boston office to service the city and to house other functions of the company.

Cabot Corp., a Fortune 500 company, has moved its world headquarters from downtown Boston to Bay Center

Corporate Center, a suburban development in Waltham. Off Route 128 and the Massachusetts Turnpike, the 58-acre masterplanned development is being built on the former site of a thriving pig farm. The first phase, a 274,000 sq. ft. office building, was completed in January and construction of the second phase has begun. The park, being developed by Bay Colony Property, a wholly owned subsidiary of Boston-based Bay Financial Corp., will have four office buildings, to be built in four phases, with a total of 900,000 sq. ft.

The movement away from downtown is not going unnoticed by commercial real estate brokers.

"What we're seeing in the suburbs is a lot of activity with large users — and many of those users are coming from downtown Boston," says Robert S. Cunningham, regional vice president for brokerage at Spaulding & Slye.

"Several large downtown users are in the process of committing to space now," he says. "The advantage of moving out of downtown is traffic and parking problems, the differential in-price — $30 to $20 per sq. ft. — and labor force."

"We're seeing movement from downtown Boston to the suburbs that hasn't been seen here in quite a while, if ever," agrees Brown of Peter Elliot & Co.

"We see more of a decentralization of major financial service companies spreading into the suburbs with satellite offices in the 5,000 per sq. ft. to 10,000 per sq. ft. range," he says.

An exodus or expansion of Boston corporations into the suburbs would certainly help to bring down office vacancy rates in these overbuilt communities, where strong absorption is still not enough to bring vacancy rates to optimum levels.

Cunningham figures the suburban office market has been absorbing 1.5 million to 2 million sq. ft. annually in recent years and had already absorbed 1.2 million sq. ft. in the first six months of this year.

Even that, however, has not been able to keep pace with supply, which has been averaging 3 million to 4 million sq. ft. a year. In 1986, he says, there are 34 projects under construction totaling 3.5 million sq. ft.

"People are pretty concerned about the overbuilding situation, so you won't see a lot of building now," says Cunningham, who estimates suburban vacancy rates have fallen 2 percentage points since last year to 18%.

Paul A. Simard, vice president of Cushman & Wakefield, is even more optimistic on office vacancy rates in the suburbs. He believes vacancy is under 15%, "maybe even 13% or 14%."

Simard points to the hot Burlington market, where Home Owners Federal, Cabot, Cabot and Forbes and Toyota all have leased office space in the past year.

"The high vacancy in Burlington that we saw as recently as a quarter ago has decreased considerably," he says. "I think that's evident all over the suburbs. Construction activity has decreased significantly since last year, and absorption and tenant activity is seeming to continue."

Not everyone is that upbeat about vacancy rates in the suburbs.

Thomas A. Walsh, executive vice president at the Codman Co., agrees that demand in the suburban market is healthy, but he figures vacancy rates are in the 25% to 30% range.

Along Route 128, the inner high-tech belt that runs to the west of Boston, Walsh calculates a vacancy rate of about 25% based on 5.8 million sq. ft. available out of a pool of 23 million sq. ft.

The smaller Route 495 market, which runs farther west of Boston, has 4 million sq. ft. available out of 12 million sq. ft. for a vacancy rate of more than 30%.

The outlook for R&D and industrial space in the suburbs is similar: strong demand but an even stronger supply.

"We probably have a three-year supply of R&D space on Route 495," says Walsh. "The industrial market is the most healthy right now because it's been the least attended to. People have concentrated on the office and R&D market."

"I would say it's healthy," agrees Charles H. Detwiller III, vice president in charge of suburban brokerage at C.W. Whittier. "There is a lot of activity going on, but there is a tremendous amount of space. There was an overbuild."

Detwiller, who also serves as New England chapter president of the Society of Industrial and Office Realtors, says the hot spots for R&D and industrial space are the Burlington-Bedford area near the intersection of routes 3 and 128, Route 3 around Chelmsford, Route 2 in Littleton, Andover on the northern end of Route 495 and Marlboro and Westboro on the southern stretch of the interstate.

Land costs are becoming a concern for developers in the suburbs, he says, particularly in these areas. Prime parcels of land on Route 128 can run between $600,000 an acre and $800,000 an acre, he says, while land at key interchanges of Route 495 can reach the $200,000 an acre to $250,000 an acre range.

Rents for industrial and R&D space along routes 128 and 495 are in the $9.50 per sq. ft. to $12 per sq. ft. range, according to Detwiller, depending on the location and quality of the building. Rent concessions are common, however, including three months to six months of free rent, building allowances and, in some cases, limited rent reductions up to $1 a sq. ft., he says.

"I think we're seeing a very good market for the next couple of years," Detwiller says. "This area of New England has a great quality of life and a good livability. A lot of companies are beginning to find that."

Suburban industrial space scarce

The strong supply and demand for industrial space in the suburbs is not passing the city by, either.

Daniel Fishbein, director of real estate for the Economic Development and Industrial Corp. of Boston, says less than 10% of the 51 million sq. ft. of industrial space is vacant today. And that figure drops to about 5% if you don't count space in need of extensive rehabilitation.

"Our concerns have completely changed in the past three years," says

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Pittsburgh

meet the particular needs of advanced technology companies.

There is growth in a number of employment areas throughout the district, but most of it seems to be in the service industries. An example is the first phase of a 420,000 sq. ft. addition by Charley Brothers Co., a division of Super Valu, to its perishable food distribution facility in New Stanton, Pa. The new building, to be finished in early 1987, is part of a five-year, $40 million expansion of the company's Westmoreland County operations. There will be 300 new jobs created to add to the 700 already employed by the company.

According to a recent Mellon Bank study, manufacturing still employs approximately one in five people here, and it contributes 40% of the region's income. However, since the 1960s, the district has lost 100,000 manufacturing jobs. These have been offset, somewhat, by the gain in non-manufacturing jobs which increased by 220,000 during the same period.

The job market continues to improve in the area, despite such setbacks as loss of steel jobs and the closing of Gimbel's and Gold Circle stores.

About 240 jobs will be created when construction is completed in fall 1987 on the conversion of the historic Motor Square Garden Building in the city's East Liberty area, turning it into a three-level, climate-controlled, indoor shopping mall with 84,000 sq. ft. of retail space. This $12 million project is being sponsored by Joseph A. Massaro Jr., president of Massaro Properties Inc. His partners include Thomas A. Domagala, vice president of development for Melvin Simon and Associates, and Eli Bratich of Eli Bratich and Associates, a real estate development and leasing consulting company in Pittsburgh. When completed, the Motor Square Garden shopping mall will have 45 shops and restaurants.

Jay Aldridge, president of Penn's Southwest, a quasi-public agency responsible for helping bring new industries and jobs into southwestern Pennsylvania, said the region has attracted a large number of foreign companies. As of last August, there were 206 foreign firms in the area and 103 of them had established their U.S. headquarters in Pittsburgh. These firms have also created just under 60,000 jobs. □

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Fishbein. "Up until three years ago there was a glut of industrial space available and it was difficult to find enough expanding companies to fill the space. Today, we have 144 labor-intensive companies that want to find space and very little space available that's suited for their needs."

Fishbein says the strongest growth areas to benefit from the city's booming economy are printing, the manufacture of construction materials and hardware, the manufacture and distribution of metal and electrical equipment, and video production.

One of the corporation's success stories has been the Frank Bronstein Industrial Center in South Boston. Constructed for the U.S. Army in World War I, the building was targeted for a $13 million rehabilitation effort that created 825,000 sq. ft. of industrial space. The space was filled in three years.

The corporation oversees three industrial parks that employ about 3,000 workers, including more than 1,200 for new tenants that began operating in 1985.

Two new projects are under way to meet the heavy demand for industrial space in the city. The corporation is working with the state to acquire 30 acres of land at the former Boston State Mental Hospital in the Mattapan section for a 350,000 sq. ft. industrial park. A bill before the Massachusetts legislature would provide $500,000 for planning purposes and authorize the agency to sell or lease a portion of the property.

A second effort would create the Newmarket Industrial District in Roxbury. A legislative bill would provide $40 million to fund the project, which would cover about 100 acres. The corporation would work with city and state agencies to open new sites for development, help existing industries expand and improve transportation access.

Fishbein expects the legislature to approve both bills sometime this fall — and the demand for more industrial projects in the city to escalate even further.

"The demand is phenomenal," he says. "Last year, 400 companies came to us looking for sites. Three years ago, about 120 companies came to us. Of the 400 companies, we've targeted 144 for assistance because of the jobs they offer. Those 144 companies represent 10,000 jobs."

While the demand is strong among industrial firms looking to locate or expand operations in the city, so has it been among developers of first-class hotels. Nine new hotels opened between 1980 and 1986, nearly doubling the amount of rooms from 7,000 to 13,000.

"Boston had been maybe five to 10 years behind what had been happening in other cities in hotel development," says Robert E. Cumings, president of the Greater Boston Convention and Visitors Bureau.

A major step was taken around 1982 when the Hynes Convention Center, then owned by the city, became a state-owned and operated facility under the Massachusetts Convention Center Authority. The authority floated bonds for an expansion project that will double the size of the building and cost between $155 million and $158 million by the time it opens in January of 1988.

The new facility will consist of 360,000 sq. ft., including 94,000 sq. ft. for 44 meeting rooms. The Hynes will be able to host 22,000 at a convention and up to seven small groups simultaneously, Cumings says, and accommodate about 90% of the convention market.

In the meantime, two other private facilities have been developed to pick up some of the slack.

The Bayside Exposition Center, a rehabbed shopping center in the Columbia Point section of South Boston, opened two years ago and is used extensively for gate shows. The center consists of about 200,000 sq. ft. and will continue to be used for home shows and the like even after the Hynes reopens.

The second facility, which opened in June, is the World Trade Center, which contains 120,000 sq. ft. of exhibit space, a lecture hall that can seat 450 people and six meeting complexes.

Occupancy rates have declined slightly since 1984, according to Cumings, partially because of the closing of the Hynes. Occupancy fell from a healthy 70% in 1984 to 68.8% last year.

"It was down slightly over 1984, but when you consider we had 3,000 to 4,000 additional rooms on line on a year-round basis, we felt business was about level."

Total hotel sales increased from $207.9 million in 1984 to $277.6 million in 1985, according to the bureau, while the average daily room rate jumped 5.2% from $81.20 to $85.41.

The newest hotel to the area is the 25-story Cambridge Center Marriott Hotel. Opened in September, the hotel is part of a 2.5 million sq. ft. project under development by Boston Properties on a 24-acre site in Cambridge directly across the Charles River from downtown Boston.

Boston Properties already has completed 730,000 sq. ft. of office space in five buildings and a 900-car parking garage. A total of 4,000 parking spaces eventually will serve the project.

The development, located directly across from the Massachusetts Institute of Technology, also includes the 160,000 sq. ft. Whitehead Institute for Biomedical Research and offices and research facilities of such firms as Honeywell Inc. and Blue Cross/Blue Shield of Massachusetts.

In addition to the buildings completed and the Marriott, the remainder of Cambridge Center will consist of a retail center, additional office space and public improvements. The project was begun in 1980 by Boston Properties and is being developed in phases with an estimated completion date of 1995.

Also in Cambridge, construction has begun on the first phase of University Park at MIT on Massachusetts Avenue. A 96,525 sq. ft. building is being rehabilitated by Cleveland-based Forest City Development. The first phase of the project is expected to be completed next fall. The 27-acre park will contain 2.5 million sq. ft. which will include 110 low-income to moderate-income housing units, office, R&D and retail space and a 350-room hotel and conference center. All buildings in the park will be less than six stories. The project is set for completion in 1996.

The construction of more low- and moderate-income housing is sorely needed. The shortage of affordable housing has reached the critical stage, according to a report prepared by the Greater Boston Real Estate Board.

The vacancy rate for rental units in Boston last spring was 2.7%, according to the Rental Housing Association (RHA), a division of the regional real estate board. This compares with vacancy levels of 5.7% in May 1983 and 2.52% in October 1984. The 2.7% figure is based on 5,537 rental units in the city, 5,390 of which are market-rate units.

The market was even tighter in some of the immediate suburbs. Cambridge, which has a total of 2,982 rental units, had a vacancy rate of 1.5%, while Brookline's rate was 1% for its 909 rental units.

The survey also found that the average rent for a market-rate unit in Greater Boston, regardless of size or utilities, was $638.

In Boston alone, the average rent was $478, while it was $511 in Cambridge. Higher average rents could be found in Newton ($946), Malden ($765), Arlington and Revere ($637), Milton ($625), Belmont ($570), Somerville ($568) and Chelsea ($547), according to the survey. The lowest average rent found in the metropolitan Boston survey was Brookline ($356).

"It is certainly a very tight market as the 2.7% vacancy certainly indicates," says Edwin J. Shanahan, managing director of the RHA. "It also indicates supply has not been keeping up with demand."

Mayor Raymond L. Flynn set a goal of 3,400 new housing units at the beginning of the year. As of July, 2,300 permits had been issued for construction.

"So it appears as if we're going to go well beyond the 3,400 units," says the BRA's Memolo. "The goal is a maximum production of affordable units to ease the housing crunch, which leads to a rise in housing costs."

Memolo says the BRA is targeting a number of neighborhoods for housing, including Roxbury, where 600 units are planned. Half of those units would be rentals, he says, while the remaining half would be sold.

One approach the city took to ease the housing crunch was the establishment of a linkage policy in December 1983. That policy called for developers of commercial and industrial projects to pay $5 a sq. ft. for each square foot beyond the first 100,000 sq. ft. to develop low- and moderate-income housing in city neighborhoods.

Late last year, acting on the recommendation of the mayor, the Zoning Commission raised the linkage fee to $6 a sq. ft., with the additional $1 targeted for jobs training programs. The revised formula also shortened the payment period from 12 to seven years and required that developers start payments upon the issuance of the building permits instead of two years later.

Although the linkage plan was struck down in April by Superior Court Judge Mel Greenberg, developers who had reached linkage fee agreements with the city are expected to honor their commitments.

The judge ruled that the state law enabling the city to enact zoning ordinances does not expressly permit a linkage policy. Boston officials have since filed an appeal to the Supreme Judicial Court and home rule petitions with the state legislature to give the city the authority to impose linkage requirements.

The city should begin to see its linkage money next year, according to Memolo, who estimates the first series of downtown projects are worth $35 million. Linkage payments on Downtown Projects II, which were approved in the spring, are projected to be worth another $2.72 million.

Another approach the city administration has taken to promote affordable housing is the creation of an inclusionary zoning ordinance. Under this proposal, which awaits Zoning Commission approval, developers of multifamily housing would have to set aside 10% of the units for low- and moderate-income residents. The requirement would apply to projects in excess of 10 units downtown and 25 units in the neighborhoods.

The real estate board has objected strongly to inclusionary zoning, arguing that developers of multifamily housing would face higher costs and be less likely to build in the city. The board also has challenged the legal authority of the city to create such an ordinance.

"Our contention in a broader picture is that the way to address the housing problem is to create more housing," says Shanahan. "By creating more housing at whatever rate, you are going to solve the housing problem for all individuals at varying economic levels."

Meanwhile, in the retail market, there are reports that Bloomingdale's, the upper-end department store chain based in New York, may open a store next to Lafayette Place in downtown Boston. The store would make up part of a 20-story office building proposed by Lafayette Place developers Mondev International Ltd. for an adjacent parking lot.

Lafayette Place, which opened in 1984 in the Downtown Crossing section of the city, houses 499 rooms, more than 70 retail stores and restaurants, and underground parking for 1,200 cars. An expansion now in the planning stage would add more stores and restaurants, as well as commercial and residential spaces.

"The retail climate in downtown Boston is very good," says Stacy J. Thomas, a retail broker with Hunnemann Commercial Corp. "Boston right now is looking at a renaissance."

Thomas says the only areas left to be developed in Boston are the lower Combat Zone and the areas around North and South stations — "and they are being cleaned up fast," he says.

Thomas, whose firm is the leasing agent for a number of retail establishments in downtown Boston, says demand is heavy for first-class retail space but there is little available. Most of the space falls into the secondary category or is awaiting completion in office-retail towers.

Heavy demand also has jacked up rental costs. Thomas estimates retail rents can range from $18 a sq. ft. to $25 a sq. ft. in the lower Washington Street area to $75 a sq. ft. in the heart of the downtown.

The retail space under construction is expected to run anywhere from $50 a sq. ft. to $65 a sq. ft. and up, Thomas says. These compare to rents between $25 a sq. ft. and $35 a sq. ft. in suburban shopping centers.

"For a good location with visibility, access and exposure in Boston, they're getting $35 a sq. ft. to $55 a sq. ft. on average," he says.

New England Development of Newton, which opened the nearly 1 million sq. ft. Pheasant Lane Mall this summer in Nashua, N.H., has two major retail projects closer to home.

The first is the Atrium in the Chestnut Hill section of Boston, which is now under construction and scheduled for opening in spring 1987.

The 250,000 sq. ft. "vertical" shopping center will have three stories above ground and contain one anchor store, according to Stephen Plumeri, managing partner of the firm.

A second major project is the Riverside Galleria in Cambridge, a retail-condominium project at the site of an existing Lechmere store.

Under the plan, which is awaiting final city approval, Lechmere would build a new two-level store on the westerly side of the 12.5-acre site, Plumeri says. The old store would then be torn down to make way for a multilevel parking garage and retail complex with housing units.

The project will consist of a 150,000 sq. ft. anchor store, a 135,000 sq. ft. Lechmere, 250,000 sq. ft. of space for-middle mall stores and between 250 and 300 condo units.

''The market is extremely healthy,'' says Plumeri. ''The demand for quality retail space is very strong. This is one of the few areas of the country that didn't have a recession.''

As for the future of the megamall, Plumeri says the combination of expensive land costs, saturation and stringent community approval processes will limit the opportunities.

''Very, very few places in the country, and indeed in NewEngland, can support a 1 million sq. ft. shopping center,'' he says.

Those feelings are shared by Norman Weinman, director of leasing for Rose and Associates in Jericho, N.Y., a real estate firm that develops, owns and manages about 50 shopping centers across the country.

Weinman, whose firm manages the 250,000 sq. ft. Watertown Mall six miles west of Boston, believes that ''supermalls'' are becoming increasingly difficult to develop.

''It's much easier and quicker to put up a neighborhood or community strip center of maybe 80,000 sq. ft. to 300,000 sq. ft.,'' he says. ''And you don't require, among other things, that amount of capital as opposed to the other.''

A good illustration is Marlboro Square, a 12-store strip center scheduled to open this month, along the southern end of Route 495. The 42,500 sq. ft. project will be anchored by National Hardgoods Distributors and also house a J.C. Penney catalog store, a clothing store, hair salon, cosmetic outlet, photo shop and a pizza restaurant.

Howard Grossman, developer of the project, says he has noticed in the past year a trend toward smaller shopping centers.

''There's no question about it,'' he says. ''The retail stores are taking a look at the tremendous operating cost of regional malls. Although total gross volumes would be higher in malls, the operating costs really counteract that. What counts is the bottom line.''

Grossman points to land costs as another reason for the scaling down of retail complexes. Depending on the size and location of the lot, he says, land costs can run from \$50,000 an acre to more than \$200,000 an acre.

''Anywhere in eastern Massachusetts it's hot for retailers now and extremely expensive,'' he says. ''And I would lump southern New Hampshire in with that. We're seeing land values in Nashua over \$300,000 an acre.''

Another example of thinking small is evident at Wellington Circle, a 50,000 sq. ft. shopping center that opened last December in Medford.

Len Bierbrier, president of Bierbrier Realty and Development Inc. of Cambridge, purchased four acres of land with 27,000 sq. ft. in two existing buildings. He rehabbed one of the buildings and built a third building with an additional 21,000 sq. ft. It was expected that 95% of the space would be leased by early September.

''It's a perfect example of how to win in an urban area,'' he says. ''Build a smaller center on a piece of property not completely used.''

Bierbrier, who teaches a course in shopping center development at the Harvard University Graduate School of Design, believes retail tenants are starting to rethink the advantages of large regional malls and are more seriously looking at community retail centers. □