

Boston's Rail Yard Redevelopment

Imagine 140 acres of prime, undeveloped Boston land along the picturesque Charles River, ringed by Harvard University, the Massachusetts Institute of Technology (MIT), and Boston University, with some of the best highway and mass transit access in the region. It sounds like a dream, but it is real—a site referred to by developers as Allston Landing for its location in Boston's Allston neighborhood and known to the locals as the CSX rail yards.

This site has all the allure of Mission Bay in San Francisco or the Upper West Side rail yards near Lincoln Center in Manhattan. Not unlike those two thriving urban centers, Boston's development pressures stem from its vibrant, tight urban core, combined with the expanding needs of a diverse economic base of financial services, health services, technology, education, and government. What makes the development of the CSX yards more challenging is that they still are in use and would need to be relocated to allow development to proceed.

Boston has a history of moving rail yards to make way for bold new development opportunities. The visionary Mayor John Collins seized the moment in the early 1960s when he convinced Prudential Insurance Company to build a 29-acre, mixed-use project on the former site of the CSX yards—then owned by Penn Central and located in the heart of the Back Bay; that led to the CSX yards being moved to their current site. Today, the Prudential Center is a fashionable urban landmark that has become the premier lo-

cation for businesses, stores, and tourists alike. Another former rail yard on the southern edge of the downtown waterfront, known as the Fan Pier for its 19th century, fan-shaped rail yard configuration, also presents an exciting, large-scale development opportunity for Boston.

The realization of Allston Landing's potential moved forward last year when Harvard University paid the Massachusetts Turnpike Authority (MTA) \$151 million for 48 acres of the site. The university, whose campus is largely built out and land constrained on the Cambridge side of the Charles River, views its continued expansion across the river in Boston as imperative. The land purchased, in a deal consummated a little over a year ago, abuts Harvard Business School and offers the primary opportunity for the campus to expand over the next several decades. Incoming Harvard president Larry Summers already is convening a strategic planning group to assess the potential of the site and explore what facilities the university might like to establish there.

An urgent need to raise supplementary highway construction funds precipitated the MTA's sale of the land to Harvard. In 1999, massive cost overruns were faced by Boston's "Big Dig"—the \$14 billion project to bury Interstates 90 and 93 through central Boston. Then-governor Paul Cellucci pledged to the Federal Highway Administration (FHA) that the state would aggressively pursue any and all means to cover its matching share of the funding shortfall. The MTA's resulting public bid process for the 48 acres of surplus MTA land straddling the Massachusetts Turnpike Extension was the result.

Harvard's successful bid for the MTA land is only the first step in gaining full control of the develop-

ment rights. Almost 70 percent of the 48 acres is encumbered either by long-term leaseholds or permanent easements. By far the largest controlling interest is held by CSX, which has a permanent easement on almost half of the land. (The remaining 92 acres of the 140-acre tract are owned by the MTA; CSX has a permanent easement on 80 acres, and the other 12 are owned, controlled, and used by the MTA.) Thus, in order for Harvard to get much use out of its new purchase, the university needs the cooperation of the railroad. Two obvious alternatives are to move the freight-transfer facilities out of the 48-acre parcel or to relocate the entire rail yard and the associated freight-handling operation somewhere outside of Boston's urban core.

Fortunately for Harvard, CSX has at least some operational and financial incentive to consider the second alternative seriously. First, reliance on the current location as a base for distributing containers throughout New England made more sense when Boston Harbor, only a few miles east, was a more active container port. Today, most of Boston's container port activity has been consolidated into Port Elizabeth in New Jersey.

Second, low bridges over the freight rail corridor leading into the city prevent container cars from being double stacked, an industry practice that cuts costs and significantly improves shipping efficiencies. As a result, CSX's double-stacked trains entering the region must be broken down into single-stacked configurations before they can proceed to the downtown rail yard. Massachusetts has explored increasing bridge heights along the Boston metropolitan rail corridor, but this option currently has been deemed too expen-

Luckily, Boston came roaring back during the mid- to late 1990s. Mutual funds, software, the Internet, and telecommunications—the "gazelle" industries of the 1990s—drove much of the region's growth. But with rapid growth comes volatility. Although not at the forefront of the dot.com revolution, Boston was home to many dot.coms, among them Streamline.com, CMGI, Mothernature.com, Rock.com, Pets.com, Furniture.com, and Doubleclick.

While most have suffered the fate of the "dot.bombs," not all are "dot.goners"; Monster.com continues to expand, for example. Despite a few successes, however, Greater Boston has suffered from the recent decline in the technology industry. Such declines do not necessarily indicate that Boston's real estate market is on the verge of collapse, however. One must delve much deeper into the fundamentals of Boston's current real estate cycle before judging the future of the office market.

Office Market Fundamentals

Recent comments on the Boston office market have included such titles and phrases as "Bubble Bursts, How Far Will Rents Fall?" in

NAI Hunneman Commercial Company's first-quarter 2001 office market report, and "Boston recorded the largest rise in vacancy rates of all markets," in Grubb & Ellis/PNC Real Estate's June 2001 national office market update. Such statements immediately conjure images of the bottom of the last real estate cycle in Boston, when landlords were left wanting for tenants and rents fell to the lowest levels in decades. However, the reality of this cycle is quite different from what many of the headlines would indicate.

While the Boston office market is softening, it is coming off a period of record-low vacancy rates and extremely strong market fundamentals, so the starting point for this correction is entirely different from that of the previous one. Thus, the results of this correction will differ considerably from those of the previous slump. A few aggregate numbers help illustrate this point.

In 1989, Greater Boston's office vacancy rate was 14.5 percent—its highest level in more than 15 years—and rising. Construction of more than 42 million square feet of new office space had been completed during the previous five years, and an additional 10 million square feet was being built. As demand plummeted and



sive. Not surprisingly, it is the last ten to 15 miles of rail corridor that is particularly expensive to fix. Relocating the rail yard well outside the city would significantly reduce the cost of any residual bridge retrofits.

Third, there is the additional logistical challenge of operating a large-scale freight and container transshipment facility in the middle of a densely populated, congested urban area. Any suitable exurban site that could accommodate double-stacked trains, while offering con-

venient interstate highway access to points north and south in New England, would be a far more practical location. Moreover, the surrounding community would applaud elimination of the noise, pollution, and traffic congestion generated by the trucking operation.

Given these operational challenges confronting CSX, combined with intensifying development pressures surrounding the yards, it is increasingly apparent that the current rail and trucking operation is no

longer the best use for the 140-acre site. Boston and Cambridge, in particular, suffer from an acute shortage of student housing. The site's proximity to Boston University, MIT, Harvard, and other local educational institutions make it an ideal location for additional mid- and high-rise residential buildings.

In addition, these same institutions, with their world-renowned faculties, continue to attract corporate and nonprofit research and consulting firms, generating strong demand for new office and research and development space. These development pressures, combined with the expanding commercial needs of the Allston community, make Allston Landing one of the largest and most exciting development opportunities in Boston.

About one year ago, Harvard agreed to fund an independent land use planning process guided by a community strategic planning group. The roughly 40-member group, made up of business, civic, and neighborhood leaders, recently hired Goody Clancy & Associates, a Boston-based architecture and planning firm, to undertake the planning effort.

The next step is to get the MTA, other state agencies, and the city of Boston involved in assessing the need for, and associated costs of, public infrastructure, highway congestion mitigation measures, and open space for the area. As a vision for the future use and urban design of the area continues to take shape, the MTA, Boston, and other potential stakeholders will get the real estate development community involved to design, structure, and implement a comprehensive investment strategy and development program for the area.—**Dana C. Rowan**, senior vice president of *New Boston Fund, Inc.*, a Boston-based real estate investment and development firm

new supply continued to come online, vacancies increased, hitting 18 percent by 1991.

At year-end 2000, most firms estimated that Boston's office vacancy rate ranged from 2.6 percent to 4.7 percent. While most firms said vacancies rose modestly from the third to the fourth quarter of 2000, vacancy rates were coming off their lowest levels in more than 20 years. Also, construction for the previous five years, 1995 to 2000, was less than one-third of its level during 1984 to 1989. The market's low current vacancies reflect, in part, the controlled supply response during this cycle. While this is true at a national level, it has been particularly true for Boston.

Helping to limit supply has been Boston's notoriously tough stance on zoning: both the city and most of the suburban communities have rigorous approval processes. Zoning in the Greater Boston area is run at the city and township levels, and as a result, not-in-my-backyard (NIMBY) attitudes prevail. In addition, sources of financing for speculative projects were limited during this cycle. Taken together, these forces have led to less supply. And needless to say, limited supply is the real estate in-

vestor's friend, for when demand exceeds supply, rental rates and occupancies rise.

Limited supply and recovering demand contributed to low vacancy rates and rising rents over the past several years. Supply of new space was so constrained in some submarkets that vacancy rates dipped below 2 percent, and rents rose to above replacement cost. In the Financial District, for example, vacancies fell below 2 percent during the third quarter of last year, and Class A rents spiked to more than \$80 per square foot. In the prestigious Waltham/Route 128 West submarket, vacancies dipped below 5 percent, and Class A space rented for as much as \$70 per square foot. The tech-laden Cambridge market was home to the area's lowest vacancy rates, with Meredith & Grew, Spaulding & Slye, Grubb & Ellis, and Cushman & Wakefield all reporting midyear 2000 vacancy rates below 0.5 percent. Class A rents in prime Cambridge locations increased to as much as \$70 per square foot.

While demand corrections are never good for commercial real estate, the best time for them to occur is when vacancy rates are low, construction is limited, and rents are relatively high. Such is the case with this economic correction: while supply had begun to