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HOUSING MATTERS

Life Sciences Boom Creates Challenges, Opportunities for Housing Needs

Sector's Sudden Growth Prices Out Multifamily Development

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SPECIAL TO BANKER & TRADESMAN



Life sciences is a growth industry in Greater Boston with the potential to generate a huge number of jobs. In fact, according to the real estate firm CBRE, the Boston-Cambridge area is the largest life science cluster in the nation.

Recently, in observing how well Boston has weathered during the COVID pandemic, a Boston Planning & Development Agency report noted that growth in this sector “has helped insulate Boston’s workforce and economy.” According to that same BPDA report, life sciences jobs in Massachusetts have zoomed up 42 percent over the last decade, and by a whopping 83 percent in Cambridge.

This is all good news, unless you are looking for a new place to live. Thousands of new highly compensated workers who are seeking housing have entered the market at a time when so little is being created. When an area already has sky-high housing prices, as ours does, securing quality housing becomes further out of reach for many. Boston, much like Seattle and San Francisco, is facing the reality of its success as its housing market is becoming further disrupted by these powerful economic forces.

And this has no signs of abating. In fact, some experts believe that up to 25 million square feet of life science space are in the pipeline in Greater Boston, from early planning to actual construction.

How Labs Disrupt Housing

This is disruptive to the supply side of the housing market in another dimension as well. Simply stated, companies with lab needs can pay higher land costs than housing developers, and a combination of factors has intensified the competition for developable land in the Greater Boston area. That has put intense pressure on new housing development because there is competition for the same land, driving land prices up above what residential multifamily developers can pay.

“Especially in the Seaport and Cambridge, permitted land for lab and life science could be worth \$400-\$500 per square foot, whereas multifamily land is likely worth \$80-120 per square foot,” said Travis D’Amato, managing director for investment sales at the real estate consulting firm Walker & Dunlop. “The combination of that and the run-up on construction pricing has made housing even harder to produce than it was pre-COVID.”

And this cost pressure is not limited to a few locations. Life sciences companies, including pharmaceuticals, research and development, startups and others, have overflowed traditional

epicenters like Kendall Square and the Seaport. They have spread not only to Waltham and Lexington, as in the past, but also to Somerville, East Boston, Allston and Brighton, and farther afield.

A recent article on Boston.com quoted one expert saying, “If you’re anywhere along the corridor where companies want to be in Greater Boston, multifamily developers can’t compete.” It went on to note that “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.”

More, Broader Action Needed

Unfortunately, there are no obvious solutions to these problems, but there have been some innovative efforts to leverage this success to the creation of new housing. Since 1986, the city of Boston has administered its Linkage program, which requires large scale commercial developments to pay funds that support the creation of affordable housing and workforce development.

Just recently, in response to the strong economy and the tremendous growth in life sciences, the city moved to take advantage of some additional revenue. In March the city raised Linkage fees by 42 percent, which was possible because the state legislature approved the city’s home rule petition to give more flexibility in adjusting Linkage fees based on economic conditions.

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The city of Cambridge has a similar program and is currently proposing to raise its linkage fees by over 60 percent from the previous rate, based on the intensity of anticipated development demand.

But more and broader action is needed, and other municipalities experiencing growth must be more proactive in linking newfound commercial tax revenue to housing creation. State legislators, perhaps through broader enabling legislation, could find a way to make it easier for municipalities to enact these linkage opportunities.

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It will take all of us to craft the solutions needed to solve our housing challenges. Greater Boston is in an enviable position in terms of economic strength. But it is critical that this prosperity be shared and that we make the necessary strategic investments in our housing infrastructure for our current population as well as our growing workforce. ◀

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