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Boston Office Buildings Commanding Lofty Prices

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The local economy is strong. Interest rates are low. And big foreign money is looking for a safe bet.

All that is pushing the market for Boston office buildings to heights not typically seen this side of Manhattan. Last week, two deals illustrated how high prices have climbed.

In a market where top-tier buildings have typically traded at around $600 per square foot, the financial services giant TIAA-CREF said Tuesday that it would pay nearly $900 per square foot for a 70 percent stake in Biogen Inc.'s new Cambridge headquarters, in Kendall Square.

Two days later, the word spread that Blackstone Group LP would be selling a pair of Back Bay towers for more than $1,000 per square foot, or about $1.3 billion in all.

The transactions, two of the priciest on record in Greater Boston, come amid a flurry of sales over the past year, many at sums well above the highs of last decade's bubble. The question being asked around town is simple: How long will these new boom times last?

Last month, the Federal Reserve said that "pressures in commercial real estate are rising" as prices surge in big cities across the country. And some analysts point out that this cycle, which began about five years ago, is growing long in the tooth.

The higher prices have driven down the yields that building buyers can expect in Boston to 4 percent to 5 percent in the recent deals. But that is still higher than the 2.2 percent yield on a 10-year Treasury note, and more than investors can expect from many other assets right now.

And Boston-area experts say the city’s office market remains a good bet — the beneficiary of not just cheap debt and pools of global capital, but of a regional economy that is relatively stronger and more diverse than it has been in a long time.

“From a fundamentals perspective, Boston is one of the darlings of the real estate investment community,” said Frank Petz, who heads New England capital markets for the real estate firm JLL. “It’s got everything people are looking for.”

A decade ago, Petz said, Boston was one of perhaps 10 US cities where real estate drew big institutional investors. Now, with its strength in growing sectors like technology and life sciences, Boston is in the top three or four, just a step behind New York and San Francisco.

That puts it among the most attractive markets in the world, at a time when pension funds, foreign wealth funds, and other big institutional investors around the globe are moving more money out of stocks and into real estate.

“Boston and the US in general is really being viewed as a safe haven,” said Chris Skeffington, vice president for capital markets at Transwestern RBJ, a commercial brokerage firm. “We’re only seeing the tip of the iceberg, as it pertains to foreign capital.”

Indeed, many of the biggest buyers in Boston come from abroad lately.

Blackstone, a New York private equity firm, is selling 500 Boylston and 222 Berkeley to Oxford Properties Group, which manages real estate for an Ontario pension fund and last year spent $2.1 billion on a four-building portfolio here. The central bank of Norway has bought stakes in three downtown towers in the past two years. Buyers in other recent deals have come from Japan, Germany, and Australia.

Many of these owners have different priorities than domestic private equity investors who bought buildings at the bottom of the market a few years ago and are now looking to cash out, Petz said. They don’t plan to unload their assets any time soon.

“The pension fund of Ontario, they’re not big sellers. The Norwegians are not flippers,” Petz said. “These people are not looking to get in and get out.”

Pension funds like property investments because their obligations — benefit payments to retirees — extend far into the future. They can buy and hold real estate for long periods without having to worry about short-term fluctuations in price.

Then there are the Chinese. Chinese investors have poured into US real estate in the past two years — including a big stake in Tishman Speyer’s redevelopment of Pier 4 on the South Boston Waterfront — amid growing concern about the stability of their economy. Beijing’s move last week to devalue the yuan may only hasten the flight to the exits, said Michael Smith, managing director at the real estate firm Avison Young.

“People are investing here because they want to maintain the value of their money,” he said. “They’ll even take lesser returns in the US, because what’s the alternative in their own country? Hold and have it go down 2 percent?”

In the long run, though, anyone paying $800 to $1,000 a square foot will want to make their money back. That will gradually ratchet up rents, which have climbed in most of the region but not as fast as building prices. That will put added pressure on the companies that fill these buildings to pay up for prime Boston locations, Young said.

“The ones who can will stay put,” he said. “The ones who can’t will seek lower water, be that the Seaport, the suburbs, or secondary markets.”

And eventually things are bound to settle, if only because there aren’t so many buildings in Boston left to sell.

A few prime towers are still on the market. Related Beal is selling its new Converse headquarters building on Lovejoy Wharf near North Station. The recently built One Channel Center in Fort Point is for sale, as well. And some projects under construction, from the Seaport to Kendall Square, will probably be offered upon opening.

But many of the city’s legacy office towers are in the hands of long-term holders, Petz noted. They won’t be on the market for awhile.

And then there is that fundamental rule of commercial real estate: What goes up must eventually come down. That will happen here, too, Smith said — eventually.

“I’ve seen plenty of cycles,” he said. “They don’t go on forever.”