

REAL ESTATE **BISNOW**

[Core is King](#)

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Yesterday, 300 joined us (only 30 or so who were lost) for Bisnow's State of Boston Office at the Intercontinental to hear what major investors are buying, building, and where they're getting financing.

New Boston Fund Chairman James Rappaport, Intercontinental chairman & CEO Peter Palandjian, Normandy principal Justin Krebs, Clarion Partners managing director Mark Weld, and our moderator Goulston & Storrs director Jared Tardy. We learned that core and core-plus Boston office properties are selling for sub-5% cap rates. New mixed-use and office projects (often build-to-suit) are under way downtown at the Seaport, the LMA, and Kendall Square, and in some 'burbs that are close to the city or that have ample pools of skilled labor.



Peter says Intercontinental, which manages \$2.5B of institutional assets, also has deep roots in construction and is doing more building than ever. As a developer, it's leading the \$260M redevelopment of a Princeton, NJ building into the US HQ for Novo Nordisk. He says that Boston institutions may have had their endowments battered in the downturn, but hospitals and museums are dusting off blueprints for new projects. Pension funds investing in new asset types and sovereign wealth funds coming into the market will drive many future transactions. To win deals, Peter says Intercontinental makes offers without financing contingencies and provides competitive waterfall returns to capital sources and local operators. After a quiet period, he tells us, super-regional and money-center banks are calling on Intercontinental again.



Mark says he's very enthusiastic about this early stage of the current CRE cycle and the prospects for the core and core-plus properties Clarion targets. He likes urban locations like Clarion's recent buy at 535 & 545 Boylston St (Back Bay); and development in the Seaport (411 D St) and LMA (Longwood Center, a \$350M life science building). He still likes the Financial District and calls Boston Properties' \$615M acquisition of 100 Federal St, "the best deal in the US." Overall, he sees CRE values going up over the next 12 months. But not to worry: "We've learned about de-leveraging," he says. Big banks and insurers are lending for big deals. CMBS though is dead for now. His advice on competing for assets: It's all about speed and due diligence.



Justin says that the venture capital flow has been “amazing” in the past few months. Tech companies, which have more cash than ever, are great prospects for build-to-suit offices, a solid defensive investment. Normandy has three such projects in various stages in Concord, Needham, and Newton. Banks, meanwhile, are getting more comfortable with projects that have reliable sponsors and a tenant in hand. For small deals, local banks have been aggressive and very competitive. But for large deals, financing is available for core deals with strong underwriting. Tech and life science companies are generating much of the tenant demand and they want a new type of office that creates an environment attractive to their young, well-educated workforce. (And considering how good looking they are, more mirrors.)



We snapped New Boston Fund’s Gary Hofstetter with Jim who says that as a value-add investor, he wouldn’t pay the prices that BNF is seeing today for select NBF legacy CRE assets. What’s more, he tells us that the company has received unsolicited offers on properties that had little buyer interest just two years ago. Prices are so high that when a value-add investor like NBF loses a bid, Jim says it’s by 20%, not exactly a squeaker. He’s not sure there is the leasing demand to justify the risk. But to many investors, the high prices look good when coupled with low cap rates and low interest rates. Jim advises investors to find long-term money (money that will be with them through sickness and health).



Goulston & Storrs' director Jared Tardy moderated and we'd like to give a shout out to the firm, the event sponsor. G&S seems to be everywhere deals are popping. At home, it's working in the Seaport, Kendall Square and representing firms like Beacon Capital on its recent \$1.71B purchase of the Charter Hall portfolio of 14 office buildings in nine states, including 745 Atlantic Ave near South Station. Beyond New England, it worked with Tricon in a JV with an institutional investor on its \$150M investment with Johnson Development to acquire Cross Creek Ranch, a 3,200 acre master-planned community in metro-Houston. G&S also repped Starwood Capital Group in a JV with Gaia Real Estate for the \$550M restructuring and recapitalization of PJ Finance Co and its 9,500 multifamily housing units in the Sun Belt.



LaFreniere Architects' John Wilde and John LaFreniere, here with Construction Coordinators prez Mark Fisher, tell us that as they do tenant fit-ups for landlords in the 'burbs and downtown, they notice existing offices are filling quickly. Many tenants are tech firms with cloud-based offerings and companies that are into advanced imaging. Also, John says he's seeing lots of VC firms taking more space.