

DEAL OF THE WEEK | MAY 19, 2010

Buy Low and Rent Lower

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A joint venture that bought Boston's John Hancock Tower on the cheap is passing on the savings.

The joint venture that bought Boston's iconic John Hancock Tower for \$660.6 million at last year's foreclosure auction got a steal when it paid half what the building sold for three years earlier.

Now the partnership between Normandy Real Estate Partners and Five Mile Capital Partners has used that advantage to snatch a big tenant from Mortimer Zuckerman's [Boston Properties Inc.](#), one of the country's best-known landlords, by offering the tenant a cheaper rent, according to people familiar with the matter.

At a time when many tenants are staying put rather than committing to new space, New England's tallest tower pulled off a rare coup by winning over private-equity giant Bain Capital LLC. The investment firm last week signed a 15-year lease for about 208,000 square feet of office space in the glass building that has towered over the city's skyline since the 1970s.

The transaction will bring the 790-foot-tall building's occupancy to about 95% from about 80%. The deal could get even sweeter for the new landlord because Bain has an option to lease as much as 270,000 square feet before moving in late next year. The company will be leaving about 200,000 square feet of space in a 36-story building developed by Boston Properties at 111 Huntington Avenue at the Prudential Center. Bain's offices have been in 111 Huntington's tower, capped by a distinctive rounded crown, for nearly 10 years.

Bain's decision to move out was a surprise to some who expected the cash-rich and prominent Boston Properties to win the battle. Boston Properties declined to comment, but the people familiar with the matter say the real-estate-investment trust refused to significantly lower its rent offer and wasn't able to be as flexible in offering contiguous space because its building is nearly fully occupied. Bain declined to comment on the economics of the deal. But the people said that, on average, Bain will pay about \$55 a square foot over the course of the lease. The overall rent is above the average of about \$49 that the better buildings are getting in the tony Back Bay market, where both buildings are located.

But it is a discount compared with Boston Properties' asking rents in the \$65 range and well below the \$70 range Hancock was charging at the peak of the market several years ago, says William W. Goade, chief executive of CresaPartners LLC of Boston, a real-estate firm that specializes in representing tenants. In addition, the Hancock Tower also offered Bain about 12 months of free rent in the deal, meaning Bain won't have rent payments until sometime in 2012, the people said. Mr. Goade says one month of free rent was the norm before the financial crisis, at a time when landlords had the upper hand. The office vacancy rate in Boston's central business district, which includes the Back Bay, rose to 13% in the first quarter from 10.6% in the year-earlier period, according to Cushman & Wakefield, which represented both the Hancock building and Bain in the transaction.

Boston Properties' reluctance to lower rents significantly could also signal some confidence in the commercial-real-estate market's recovery.

Bain "had an existing landlord that wouldn't blink because they were betting that the market would get better," Mr. Goade says.

Bain, which recently agreed to acquire Dow Chemical Co.'s Styron plastics business, was co-founded in 1984 by a group that included Mitt Romney, who went on to become the governor of Massachusetts. It occupies the top floors in its existing location, but as the firm has grown, some of its offices have also been scattered throughout the building. Its new offices in the Hancock Tower will be on floors 37 through 43.

The tower, designed by Henry Cobb, is one of the city's best-known buildings. More recently it became a poster child for the excesses of the real-estate boom. Broadway Real Estate Partners bought the property in 2006 for roughly \$1.3 billion. Last year, a Broadway fund defaulted on debt tied to the tower after it was unable to fill the building with tenants paying higher rents. The new owners paid about \$367 a square foot, well below the \$722-a-square-foot price paid by Broadway.

Normandy, co-founded by property investors Finn Wentworth and David Welsh, and Five Mile, led by former real-estate financier Steven Baum, are spending about \$50 million on capital improvements to restore the tower "to where it had been, which is the best building, bar none, in Boston," says Mark Roopenian, vice president at Normandy. Improvements include a new cafeteria.

"We were aggressive, and we could afford to be aggressive because we bought the property at such a low basis," says Mr. Roopenian of the Bain transaction.

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