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THE ROAD NOT TAKEN

I-495 Struggles To See Light At End Of Tunnel

Despite Poor Fundamentals, Deals Are Being Made

BY JIM CRONIN | BANKER & TRADESMAN STAFF WRITER

The commercial real estate market along the Interstate-495 belt is either heavenly or hellish, depending on your perspective.

Gaping vacancies and aging facilities continue to drag rents through the mud, and a glut of properties purchased at the peak of the boom are just now starting to sell for pennies on the dollar – if they sell at all.

At the same time, savvy tenants and bargain-hunting local landlords are benefiting from the market's atrocious fundamentals, helping to drive sales volume and property improvements, albeit slowly.

According to estimates, approximately 20 percent of the commercial space along I-495 lies vacant. Much of that vacant space is housed in aging buildings suffering from years of deferred maintenance. The lack of tenants creates a lack of cash flow, which only helps to reinforce the cycle – no cash means no improvements means no tenants means no cash.

This, in turn, makes those same properties that are unattractive to tenants, unattractive to potential investors as well – at least not without significant discounts and incentives. Those properties which have sold have, in many instances, been scooped up by local owner-buyers with knowledge of the market.

Deep Discounts

But while regional companies in the suburbs north and west of Boston have been purchasing buildings, the overall effect of so many companies downsizing in the region has been flat absorption, according to industry experts.

"In general, we're going to see rents dragging along the bottom for quite some time,"



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said Brian Morrissey, a vice president at Jones Lang LaSalle.

With so many buildings along the highway sitting vacant, a lot of larger investors aren't willing to take risks without existing tenants filling seats and contributing to the rent roll. Local investors, however, are more willing to take those calculated risks because they know the region. Perhaps more importantly, Morrissey said, because the pool of potential investors is so small, local buyers can lever-

age their position into hugely discounted purchase prices.

In late September, Quincy's Campanelli Cos., in a joint venture with Dallas-based TriGate Capital, purchased nine properties, stretching from Billerica to Nashua, N.H. Eight of the properties were bought out of receivership, and were once part of a troubled portfolio owned and managed by Kam-biz Shahbazi and Constantine Alexakos.

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Vacancies, Aging Properties Continue To Plague I-495 Corridor

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Reports indicate Campanelli and TriGate paid \$2.18 million for two Billerica properties that Shahbazi and Alexakos paid \$3 million for six years prior. Campanelli and TriGate paid \$6.41 million for three Wilmington properties previously acquired for \$12.5 million about five years ago. Prices for the remaining properties were not available at press time.

Reef America REIT, the real estate investment branch of Deutsche Bank, sold 29 Dunham Road in Billerica earlier this year for \$2.8 million. The German bank bought the building in 2005 for \$5.4 million.

While those sales are ultimately a positive thing in the quest to drive sales volume in the area, most properties transacting on I-495, in places like Bedford and Billerica, have sold at prices in the low- to mid-\$30s per square foot. It's a far cry from the highs of just a few years ago.

"Some of them paid between \$60 and \$80 a foot in 2006," Morrissey added. "They all traded at below replacement costs."

And Morrissey does not see the I-495 office market returning to health anytime soon. Landlords are increasingly desperate to fill huge vacancies. At 129 Parker Street in Maynard, Chartwell Properties is advertising 400,000 square feet of space vacated by Digital Equipment Corp., going as far as of-

fering up to four years of free rent, and rents starting at just \$8.95 per square-foot.

"There's still a great deal of vacancy along 495," Morrissey offered. "Even at the most recent peak, tenants still had a great deal of leverage. We certainly won't be at equilibrium in the near future. We're certainly seeing a good deal of early renewals, a game of musical chairs and tenants moving ... given that we're at the bottom of the market." Tenants comfortable with their current space are often staying put and taking advantage of low rents, Morrissey added.

Silver Lining

There are a few bright spots along the otherwise dark corridor, in desirable, amenity-rich communities like Westford. Westford, with a critical mass of office space, close proximity to restaurants and hotels and several roadway interchanges with I-495 and Route 110, has seen an uptick in transactions, according to Daniel Kollar, a vice president with Jones Lang LaSalle.

The Westford market proves that price alone is not always the deciding factor in the area, according to some. Although tenants can find less expensive space in nearby Andover, Kollar said, they are often opting for Westford's perks.

Other industry analysts are more positive about the I-495 belt, citing the limited

amount of affordable office space outside of Boston and Cambridge.

"There's only so much office space when you get out of the Boston and Cambridge markets," said Mark Vaughan, a senior partner specializing in real estate for the law firm Riemer & Braunstein. "On Route 128, there's a lack of new inventory coming on-line, so that lack of supply helps both markets, and it helps existing property owners," by driving up demand, and consequently landlords' asking prices, Vaughan said.

The area may also benefit if recent history repeats itself. Years ago, many tenants located in Route 128 communities like Burlington, Lexington and Waltham started questioning their \$40 per square-foot rents in those areas, and moved their operations to I-495, Vaughan mused. They were attracted by cheaper rents and more affordable workforce housing – conditions still present today.

"I'm not saying the migration is going back to 495 yet," Vaughan said. "But if you see rents continue to stabilize in the 128 area, you may see that ultimately help the 495 sector. Billerica been very successful in attracting some quality life science companies ... that like to be close to each other for collaborative work." ■

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