

Building brand: Exploring the trend of repositioning

BY CHUCK GREEN
SPECIAL TO THE JOURNAL

A few years back, the developers of the former Fargo building at 451 D St. in the Seaport District marketed the space to office and telecom tenants.

At the time, it made sense. It was the height of the telecom boom. There was thought to be significant need for such a use, according to **Stephen Faver**, vice president of asset management for the **Beal Cos. LLP**, a Boston-based real estate firm.

"Unfortunately, from a timing perspective, there wasn't enough demand to fill the building with telecom users." Consequently, the space went into foreclosure.

In a joint venture with **Rockport Group LLC**, Beal last year purchased the 480,000-square-foot structure for \$40.5 million. The firm deemed the property, which is across the street from the new Westin Hotel and the Boston Convention and Exhibition Center, best suited as strictly office space and launched a repositioning process to upgrade the complex. The effort included renovating the main lobby and entrances and adding parking.

"We believed that with all the infrastructure both public and now private that has been invested in the South Boston Seaport area, that this asset represented a terrific opportunity for quality back-office and other office users to take advantage of the growth of this marketplace before rents escalate significantly, which we anticipate they will," Faver said.

The Fargo building is far from the only building to undergo a repositioning depending on the real estate market demand and the vagaries of the overall economy. Proponents of the trend say it's cheaper than building from scratch, while others say such improvements are superficial and that true high-class buildings must be built from the ground up.

Marc Margulies, principal with **Margulies & Associates**, a Boston-based architecture and interior design firm, says demand and location are decisive ingredients in selecting a building for repositioning. This is followed by what he calls an "aesthetic audit" to uncover flaws that might otherwise be overlooked.

Jim Cronin, senior vice president of **The Bulfinch Cos. Inc.** in Needham, believes one of the keys is understanding the current facility's underlying infrastructure to ensure, first, that it will support a repositioning, including exterior walls, windows, floor systems, mechanical systems, roof system, elevators, and all other physical attributes of the existing building.

Another important element, said **Albert Corr**, vice president of acquisitions for **BPG Properties Ltd.** in New England, is to evaluate how your asset competes with other buildings of similar quality and location.

"You can renovate any building, but if there isn't a tenant or employment base to support it, you are potentially



The owners of 400 Totten Pond are trying to upgrade the building into a Class B-plus.

throwing money away. Being able to determine the correct amount of capital you'll need to spend to take an asset from point A to point B is crucial to the success of a repositioning," noted Corr. His company has been involved in a number of office building repositionings in the Boston area, the most recent of which is the Totten Pond Office Center, a 296,640-square-foot, three-building corporate campus, located at 400 and 460 Totten Pond Rd, in Waltham. The purchase, completed last August, was for just over \$45 million. The current owners are repositioning the building from a B-minus into a B-plus space.

"We feel by repositioning the asset we will be able to achieve close to or 100 percent," Corr said. "Lease rates are in the high teens per square foot, and we feel we can increase them to the mid-\$20s post renovation."

Margulies said the cost of making changes to a building to transform it into a higher classification is less expensive, "in almost all cases" than new construction.

"You can put money into a C building and make it a B-minus building, and as long as you don't put too much money

into it, you have a good investment as a B-minus building. But if you over- or under-improve it and miss the mark, you've wasted money," he said.

Corr said his company felt it was buying into a rising market when it purchased the Totten property last August.

"We know 460 Totten's not an 'A' product, but that's OK, because many tenants, especially those who need and want to be in Waltham, cannot afford to pay top dollar to go to Waltham Woods or Bay Colony," he said.

Joseph Plunkett, senior director of **Cushman & Wakefield** in Boston, believes that in most instances, upgrading a B building to an A can be a tough road to hoe.

"As it relates to office space, a building is what it is. You can upgrade the lobby of a C building with carpet and landscaping and redo the parking lot and maybe get it to B status, but getting an a B building up to an 'A' is borderline impossible. I find that the 21st-century definition of Class A office space is something that can only come from ground-up structures, the latest systems and efficiencies with lobby. You can try, but at end of the day, it's really just a veneer."