

Trouble, Opportunities Seen at RealShare Boston

By Joe Clements

BOSTON-It was a pessimist's paradise yesterday during the fourth annual RealShare Boston, as the ebullient atmosphere enjoyed during 2007's program was largely supplanted by concerns over a torpid economy, skyrocketing energy prices and the daunting credit crisis that some speakers warned could shift the commercial real estate landscape dramatically in the coming months.

"I think its going to be a tough couple of years," Taurus Investment Holdings President Peter Merrigan told more than 300 attendees during the half-day conference's opening program at the Hyatt Regency. Merrigan and three other respected industry veterans assessed local conditions and handicapped various sectors going forward, with most indicating the near-term outlook is bleak.

"We certainly are nervous," fellow speaker William McCall Jr. relayed. The president of McCall & Almy indicated demand for office and flex space has slowed considerably, a notion shared by Paradigm Holdings President Kevin McCall (no relation), who voiced fears that the US economy could face "stagflation" such as that experienced in the 1970s. "It's eerily similar," he says of the present situation to those dire days, adding he believes unemployment could soar to 8 or 9 percent as it did in the 1970s, if problems persist for such areas as hospitality, housing and retail.

The most upbeat of the four at the inaugural panel seemed to be National Development President Thomas Alperin, predicting demand will recover sooner than many anticipate. "I feel very good about our regional economy," Alperin says, albeit citing the threat of inflation as a wild card that could disrupt a recovery. On the sales side, Alperin says the cost of debt and tighter underwriting should result in pricing adjustments of 5% to 20%, a view shared by others who agreed the feeding frenzy that led to record investment sales in 2007 is long gone, and could mean difficult times ahead for property owners needing to harvest assets.

But while those who bought at the top of the market might face challenging times, Kevin McCall and Merrigan said it creates opportunities for companies such as Taurus and Paradigm that have had trouble competing in the highly leveraged atmosphere. "We hated the environment of the past couple of years," says Kevin McCall. "It was nutty." Although owners have largely resisted adjusting their pricing to date, Kevin McCall says many will be forced to do so because of financial engineering gone amok, including shaky bridge financing about to mature. "Thank goodness that is over, because now I can compete on some of these deals," said Merrigan of the leveraged atmosphere.

Entitled, "Is the Glass Half Full or Half Empty in Today's Boston Market," the opening program segued to a special focus on "credit, capital and inappropriate leverage" moderated by Eastdil Secured Managing Director Frank Petz, as he and five other experts from the debt and equity fields debated how long the CMBS drought will linger, and other issues, including where cap rates and interest rates are headed, plus the state of customized products such as construction financing and mezzanine debt. BayNorth Capital

Managing Director Chip Douglas says equity funding is finally starting to free up and will continue to do so as returns become more in line with returns. On the debt side, Anglo Irish Bank lending chief Eddie Byrne says his institution has doled out \$2.5 billion in loans thus far in 2008, concentrating on such markets as Boston, Chicago and New York.

Byrne joined others in citing the dearth of supply in the pipeline and tight vacancy rates as reasons for being comfortable about Boston, a belief underscored by the bank's just-completed \$120 million loan to the developers of Westwood Station, a major mixed-use complex underway in the Route 128 submarket. Other panelists included AEW Capital principal Robert Plumb, mortgage broker David Douvadjian of Colliers Meredith & Grew and Joseph Iadarola of Babson Capital. "We are still active in the market today doing loans, albeit more conservatively," said Iadarola, with Babson having closed on \$1.2 billion year-to-date versus \$1.9 billion thus far a year ago. Iadarola did, however, express concerns that life companies will run out of money later in the year, while panelists expressed doubts about the availability of construction financing. "Speculative development for the foreseeable future is going to be choked," Byrne said.

The focus event was followed by two series of discussion panels, each with three programs that delved into specific areas such as the suburban and Downtown leasing markets, another program on the capital markets and one reviewing who is looking to buy real estate and how they can accomplish their aims in a market lacking product. That program featured Barrington Capital Partners principal Jeffrey Miller; investor Michael Price of Legacy Real Estate Ventures and Grubb & Ellis investment broker Anthony Biette along with Brian Kavogian of Charles River Realty and Passco Cos. VP Peter Nicoletti. Attorney Samuel Richardson of Goodwin Procter LLP was moderator for the discussion.

Another special program, moderated by John Hirschfeld of Class Green Capital Partners LLC, took a hard look at the sustainability design movement in terms of its support among tenants and the cost of building green. Panelists included developers such as Tod Brainard of Griffith Properties, William Kane of Davis Marcus Partners and James Trudeau of Cummings Properties, whose firms are all employing that method throughout Greater Boston. **Architect Bill Holland of Margulies & Associates joined the group, which discussed the costs of maintaining such elements as motorized dimming switches or under-floor HVAC, which speakers said can be more efficient but also disruptive to the construction process.** Energy credits have become one popular tool used by developers to offset costs, said Brainard, whose firm is using those credits at its redevelopment project in Quincy, HarborSouth.

The conference also featured a one-on-one interview between RealShare executive director Richard Kelley and developer John B. Hynes III. Now CEO of Gale International, Hynes has already made his imprint on Boston's skyline in the 1.1 million-sf One Lincoln St. office tower near South Station, and he is presently redeveloping a \$700 million mixed-use complex in the city's Downtown Crossing District. The program, "Inside the Real Estate Mind," detailed the developer's ascent from a Harvard University graduate in 1980 to a major real estate force whose imprint spans two hemispheres thanks to a 1,500-acre master planned city Gale is building in South Korea. Hynes cited program attendee Lawrence Bianchi as a key mentor, after the Codman Co. principal hired Hynes for his first position, a relationship Hynes said aided him when he joined Lincoln Property Co. in 1983 to build his first project, 101 Arch St., in Boston.

Hynes went on to reveal his subsequent ups and downs in the business, including riding out the 1990 recession that quashed office development in Boston for nearly a decade. While still building out the

South Korean site, Hynes also told of his desire to move ahead on a 6.5-million-sf mixed-use project in Boston's Seaport District, telling the crowd that Gale hopes to have permitting in place by year's end, and that he wants to develop the ambitious venture in one phase.

Hynes also said he will not let a down cycle deter him from moving forward. "You want to build into the downward draft of the cycle," he opined. At the prodding of Kelley, Hynes closed out the interview with three predictions for the coming year, one that John McCain will win the presidential election after naming New York City Mayor Michael Bloomberg his running mate. Hynes also said he expects the Red Sox will win the World Series, and that freedom will come to North Koreans in 2008.