

Investors increasingly warm to commercial market ...

Hub mirrors national trend in activity level during second quarter

BY CHUCK GREEN
SPECIAL TO THE JOURNAL

Some \$30 billion worth of office properties was sold in Boston in the second quarter, representing an 8 percent increase over the same quarter last year, according to **Real Capital Analytics Inc.**'s Office Capital Trends Monthly, released in July.

With 66 office-building sales through July 1 — translating into more than \$2.5 billion — Boston is on track to match last year's record overall commercial sales figure of \$4.6 billion for 92 properties, according to **Dan Fasulo**, director of market analysis for New York-based **Real Capital Analytics**.

"It's certainly a wave that is evident across the country, not just Boston," Fasulo said.

Among the second-quarter deals:

- **Tishman Speyer Properties** closed on One Federal Street for \$514 million, or \$465 per square foot.

- **Beacon Capital** confirmed it will purchase One Beacon Street from the **Fell Organization** for roughly \$425 mil-



BY MARC BERNSAU / BUSINESS JOURNAL

Tishman Speyer Properties closed on One Federal Street for \$514 million in the second quarter, a busy one for investment in commercial real estate in Boston.

lion, or roughly \$425 per square foot.

- **Broadway Real Estate Partners** acquired 10 Post Office Square for \$108 million, or \$265 per square foot.

The Boston office market continues to strengthen in the second quarter of 2006 as the downtown office vacancy rate declined to below 10 percent, according to the Boston office of **CB Richard Ellis**.

Overall, average asking lease rates in the Boston market have continued to steadily increase in the second quarter, rising more than \$1 to \$36.61 per square foot, according to **CBRE MarketView**. Class A rents increased from \$41.26 to \$44.01, signifying the ongoing reduction of Class A space options. The demand for Class A space is surpassing the volume of available space, which inevitably increases lease rates, reports **CBRE**.

Despite the flurry of activity, Fasulo noted "we're not seeing the violent year-over-year gains witnessed in '04 and '05."

The 8 percent increase in volume in Q2 is well below the 25 to 50 percent increases sustained over the past two years, according to **Office Capital Trends Monthly**, which noted prices for office space still are on the rise, but the pace of appreciation slowed to just 4 percent in Q2 from previous levels of 10 to 20 percent.

"Over the last few years," said Fasulo, "I don't think a week went by where I didn't hear about another pension fund in this country increasing its allocation toward real estate investments — Boston being among those markets that pension funds consider a primary market."

Violent gains or no, **Frank Petz**, senior director of **CBRE Melody**, **CB Richard Ellis**' investment banking arm, said the catalyst behind the current investments in prime locations in Boston is "a consistent stream of core investors looking for good, steady yield with some appreciation but limited risk. They're pouring money in across the country, in major markets and key coastal cities. Boston has always been on the radar

Bergmeyer
ARCHITECTURE and INTERIORS

Photo © 2006 at the Woodruff Arts Center, Atlanta, GA
286 Congress Street | Boston, MA | Phone 617.542.1025 | www.bergmeyer.com

**One Source,
One Firm™**

Architecture | Engineering | Master Planning | Environmental Graphics

617.225.0200 | www.c-b.com

Carter Burgess

Boston Office | 465 Medford Street, Suite 300, Charlestown, MA 02129 | Offices Nationwide

2007 PHILANTHROPY ALMANAC

Introduce a Non-Profit Organization to Boston's most affluent business leaders by sponsoring a local charity in the 2007 Philanthropy Almanac.

Our subscribers have an average household income of \$271,000 and a net worth of \$2,190,000. Our Philanthropy Almanac will give them an opportunity to learn about the mission and needs of organizations seeking support. From fund-raising events to ongoing capital campaigns, this publication helps business leaders make informed decisions about community outreach and philanthropic opportunities.

Coming December 8, 2006

To learn more contact your Advertising Account Manager or George Armstrong at 617.316.3212.

Boston Business Journal

INCENTIVES: Developers sweeten lures as competition increases

CONTINUED FROM PAGE 32

sustain what he calls a "steady" sales pace, with 17 units going under agreement in July.

"We're doing everything possible we can to let them know that we're here," he said. "On the flip side, we don't want them to come here just because it's a 4 percent commission."

The "flip side," as Zarbano calls it, is something that developers and agents approach cautiously, aware that the extra money could make a buyer's agent more of a seller's agent — that is, working for the developer than for the client. But they insist the incentive will only do so much. Even those who believe it increases the chance of a visit don't believe it will help close a deal.

Other developers, or sellers of individual high-end homes, offer cash bonuses for as much as \$5,000, Carucci said. The advantage: The agent gets to keep all of it, as opposed to commissions, which are shared with the agent's office.

Agents are not required to disclose to their clients that they are getting an incentive from the seller of a property.

The developers of the Waterworks at Chestnut Hill are playing to agents' yearning for immediate gratification, offering to pay half of the commission at the purchase and sale signing, rather than the closing. Karen Fish-Well, the vice president for Peabody Properties Inc., would not discuss the tactic, but a spokeswoman said it worked for the company in Florida.

Others have brought some creativity to the game. Carucci, for example, is offering a three-year lease on a BMW — worth \$60,000 — to the agent who helps him sell his listing of a Weston home with an asking price of \$9 million. That perk would be on top of a 3 percent commission for the buyer's agent.

So far, there are no takers, but Carucci thinks the move may yet pay off.

"It accomplished what I wanted it to do," he said. "It created awareness."

Kevin Ahearn, president of Otis & Ahearn, had the same goal in mind when his real estate and sales firm offered a trip to Portofino, worth \$10,000 to \$15,000, to the agent who consummated the most deals at Strata 234. But Ahearn insists it wasn't an incentive. Instead, he says, it was a "branding strategy" that highlighted the project's proximity to the North End's Italian ambience.

Ahearn actually doesn't have much faith in financial incentives, even though he offered a 5 percent co-broke at 50 North Beacon in Allston/Brighton to move its last few units last spring. It was the developer's idea, and he figured it couldn't hurt. But he would have preferred to use that money for more advertising.

Another skeptic of agent incentives is Jeff Brooks, a partner in the Abrams Group LLC, which is building the Atlantic at Marina Bay in Quincy. His firm tried \$1,000 bonuses in the fall, then upped the ante with 5 percent co-brokers in the winter. "If they were going to get an extra \$10,000 on a sale, naturally what project do you think they're going to push? They'll push ours," he said.

But it didn't work, leading Brooks and partners to conclude that agents don't have much influence over their clients. So Brooks and his partners began offering upgrades and cutting prices — its lowest-priced unit is now \$259,900, from \$329,900. The result: an uptick in sales.

"It's been much more beneficial to give any possible incentive we have to the buyer," he said.

BRIAN KLADKO can be reached at bkladko@bizjournals.com.

INVESTMENT: Activity in Boston mirrors action on national level

CONTINUED FROM PAGE 40

screen for that."

Petz said the appeal of commercial property in Boston is significantly tied to its price per square foot basis as well, particularly when stacked against other major cities.

"On a price per square foot basis, as far as transactions for properties available for sale, Boston looks relatively cheap compared to New York, Washington, D.C., Los Angeles and San Francisco," he said.

For example, he said, the purchase price for Class A downtown Boston of-

fice space currently is in the \$400 area. "Relative to other markets, that's still a good pricing per square foot."

But Boston's commercial appeal isn't abetted by pricing alone. Petz said Boston is "belatedly entering into recovery mode. It has lagged the national economy, and surely has lagged New York and D.C., but job growth is certainly returning to Boston, and real estate fundamentals are all about job growth."

He said with Boston's spike in jobs has come "some absorption. That's the baseline test; the fundamentals have not proved that out yet, but the undercurrents are saying that's happening."