

# BANKER & TRADESMAN

THE REAL ESTATE, BANKING AND COMMERCIAL WEEKLY FOR MASSACHUSETTS

A PUBLICATION OF THE WARREN GROUP

CORNERING THE MARKET

## A TOWERING MONOPOLY

HOW BOSTON PROPERTIES IS POISED TO RULE BOSTON'S BACK BAY - AND BEYOND

After its headline-grabbing acquisition of Boston's John Hancock Tower, Boston Properties has put itself in the driver's seat in the city's famed Back Bay.

The company adds the Hancock to a Back Bay portfolio already containing the Prudential tower and 111 and 101 Huntington Ave. Boston Properties is now, essentially, the only landlord for tenants looking to sign leases in the area's signature properties.



BY JIM CRONIN | BANKER & TRADESMAN STAFF WRITER

It's a position that could yield an enormous amount of influence in the neighborhood in coming years, sources told Banker & Tradesman – and serve as a jumping-off point for future purchases elsewhere in the city.

"It neutralizes the competitor," said Meg Mainzer-Cohen, president of the Back Bay Association, a local business advocacy group. "They have the corner on the market. It certainly confirms their investment in Boston, specifically the Back Bay."

The move comes at a time when commercial landlords are realizing they may not need to be downtown to succeed, industry insiders said. From an employee lifestyle perspective, areas including the Back Bay offer more dining and entertainment options – and less



John Rosenthal

hassle – than the Financial District.

"The Back Bay is turning into the No. 1 location for office use if you have the choice," said John Rosenthal, president of Meredith Management. Meredith

is in the process of creating Fenway Center, a five-building, 1.3 million-square-foot, mixed-use development to be located between Beacon Street and Brookline Avenue outside Kenmore Square. "In the long-term, the Hancock is a great investment. Depending on [Boston Properties'] rent structure, it will affect everyone else in the Back Bay."

### A Target Property

According to Bryan Koop, senior vice president and regional manager for Boston Properties, the Hancock tower has always been on the company's target property acquisition list, along with several other locations and sites for future development, though he would not specify what sites.

"Our experience has been that when the opportunity to acquire one of those truly 'one of a kind' properties like the John Hancock Tower arises, it attracts capital and tremendous competition," Koop wrote in an email to Banker & Tradesman.

As a landlord in a number of urban markets – including New York City, San Fran-

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# With Hancock, Boston Properties Has Back Bay ‘Cornered’

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cisco and Boston – where open, developable land is restricted, the company’s trophy property portfolio becomes exponentially more valuable than it might be in other cities.

“It makes the pre-existing real estate all the more precious,” Mainzer-Cohen said.

Boston Properties paid \$289.5 million in cash and took on \$640.5 million in debt to acquire the Hancock, for an announced price of \$930 million.

The tower’s seller, a partnership between Normandy Real Estate Partners and Five Mile Capital Partners, bought the Hancock for \$660 million just last year – after buying large chunks of mezzanine debt owed by then-owner Broadway Partners. When Broadway defaulted on that debt last January, Normandy and Five Mile scooped up the prize.



**Mark Vaughan**

Last year’s announced price of \$660 million included the same \$640 million outstanding mortgage assumed by Boston Properties, plus \$20.1 million in mezzanine debt already owned by Normandy and Five Mile.

But Normandy and Five Mile controlled much more mezzanine debt than the \$20.1 million they bid with, perhaps as much as several hundred million dollars worth, Banker & Tradesman reported at the time. Factoring in the price paid to acquire a con-

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– John Rosenthal

trolling interest in the Hancock’s mezzanine debt would push Normandy/Five Mile’s true purchase price into the \$800 million range.

## ‘The Right Buy’

Still, the most recent \$930 million price tag, while below the \$1.3 billion the tower fetched at the market’s peak in 2006, does illustrate at least a marginal increase in the value of real estate in the city, particularly the Back Bay – welcome news after several years of price depreciation.

Boston Properties is acquiring the tower at a high point. It is 95 percent occupied, thanks to Normandy’s efforts in inking Bain Capital to an approximately 200,000-square-

foot lease earlier this year.

After a relatively dormant period of high-profile commercial sales in recent years, Boston Properties, in particular, seems poised to pick up the pieces.

“It’s a strong statement for the city of Boston,” because it provides a benchmark sale against which to judge future large transactions, something which had been lacking the past few years, said Mark Vaughan, a senior partner specializing in real estate at law firm Riemer & Braunstein. “This shows that there’s a tremendous amount of capital waiting on the sidelines.”

And since Boston Properties now has the bases loaded in the Back Bay, it would not surprise at least one local commercial real estate titan if they decided to expand further into the downtown area.

John Hynes, CEO and managing partner of Boston Global Investors, part-owners of the stalled Filene’s development in Downtown Crossing and developers of a \$35 billion, 100 million-square-foot project near Seoul, South Korea, told Banker & Tradesman he could see Boston Properties purchasing a property downtown, “if they get the right buy.”

When asked to elaborate, Hynes offered no further comment, and said the company has not approached him about the currently for-sale Filene’s site. ■

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