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Boston Seaport in Revival

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For years Boston civic and business leaders have dreamed of developing the city's Seaport District, a collection of aging industrial buildings and parking lots separated from downtown by an old shipping channel.

That dream is steadily gaining traction as indicated by the recent purchase by DivcoWest Real Estate Services LLC of four buildings in the district for \$107 million. The buildings include a former wool warehouse built in the 1800s, when the area was one of the country's biggest textile hubs, and two buildings originally used by candy and shoe manufacturers.

In recent decades the properties have been converted into about 360,000 square feet of office space, now about 95% occupied. The \$107 million price tag was 17% more than the seller, Brickman Associates of New York, paid when it acquired the buildings in a series of transactions in 2006 and 2007 near the peak of the market, according to county records.

Keith Wallace, a managing director in DivcoWest's Boston office, said the Seaport district has gone through a "fundamental shift" resulting in higher rents and demand.



Warren Patterson

In Boston's Seaport District, former industrial buildings are being converted to office space.

The Seaport's resurgence partly reflects the overall health of Boston commercial property. The city has seen values return to within 1% of their previous peaks, closer than any other major city in the country, according to a November [Moody's MCO -0.82%](#) /RCA report.

With help from a booming technology sector, Boston's office-vacancy rate was one of the country's lowest in the third quarter at 14.1%, although that is still above the 11.1% it hit in 2007, according to [Reis Inc. REIS -0.93%](#)

After the Seaport District's long decline through much of the 20th century, its historic buildings became popular with artists and startup companies. The massive Big Dig road project also has made the area more accessible and Mayor Tom Menino has thrown his political weight behind what he renamed the Innovation District.

Construction began last year on a 1.1-million square-foot headquarters for drug manufacturer [Vertex Pharmaceuticals Inc. VRTX -0.20%](#) [State Street Corp. STT -0.73%](#) also is consolidating workers from a number of sites around the city into a new \$225 million, 11-story tower. Hundreds of apartments are under construction.

"It used to be something we had to explain more and now it's something we're seeing private developers and investors take on," says Nicole Fichera, manager of the district for the Boston Redevelopment Authority. "It has its own engine."

DivcoWest is in familiar territory. Founded in 1993 by Stuart Shiff, DivcoWest gained a reputation as a shrewd buyer of offices following the dot-com bust when many technology companies were raising equity by cashing out of real estate.

Earlier this year DivcoWest was part of a venture that sold an empty office building in San Francisco to [Dolby Laboratories DLB +0.96%](#) for \$110 million. That was more than double the amount the venture paid last year.

The Boston deal could test the company's knack for timing acquisitions.

The firm expects to increase its initial return of nearly 6% as leases signed at the bottom of the market expire and as new residents and office workers arrive at projects now under construction in the area.

But average rents in the Boston area have yet to fully recover to precrisis peaks, according to Reis Inc., a real-estate research firm. Also some analysts

are raising alarms that prices of commercial real estate today are being propped up by low interest rates.

"We think some people may be in for a rude shock when interest rates go back up over the next 10 years," says Tad Philipp, director of commercial real-estate research at Moody's Investors Service.

But DivcoWest remains confident that it is riding upward momentum. Building values in the market are "substantially" below the cost of construction, Mr. Shiff said in a written statement. "We think that spells opportunity."