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Conley of Equity Office featured landlord at SIOR breakfast

December 11, 2008 - Spotlights

The New England SIOR Chapter held its last breakfast series of 2008 at the Newton Marriott on Monday, November 17th. Greg Klemmer, in his first role as the new Chapter president, welcomed the approximately 40 in audience. Klemmer first thanked Mark Stevens for serving as Chapter president over the last two years and then discussed the falling economy that we are now experiencing. He reminded the audience that in 1992 it was financial turmoil as well that ran from 1988 to 1993. He reminded everyone that in the end there is light at the end of the tunnel and always is, so hang in there.

He then stated his goal to increase membership. How will he achieve this goal and why should anyone being interested in the SIOR designation?

1. The chapter will help the younger brokers achieve SIOR education requirements with the annual Robert W. Holmes Scholarship for those who qualify.

2. The designation is an accreditation earned by an individual and not purchased as is membership in a trade association.

3. The national conferences are great for networking and education with world renown speakers. The dinner networking often leads to major referrals whether you are an independent small firm or a large national firm referring in-house.

4. SIOR serves an excellent "sounding board" on issues that an SIOR individual may want to discuss privately with another SIOR.

Klemmer then introduced the morning's featured landlord. John Conley, vice president, asset management represented Equity Office. Equity Office owns and operates a national portfolio of premier office buildings in major metropolitan markets across the country. Equity Office was acquired in 2007 with Blackstone who had acquired assets from CarrAmerica Properties and Trizec Properties. The Equity Office portfolio currently comprises over 300 properties and more than 50 million s/f in select markets across the US with major concentrations inn Boston, Los Angeles, Northern California, and Midtown Manhattan.

Conley opened the conversation by reviewing the projects that Equity has dealt in the last 1.5 years. Such transaction sales and spin-off sales with Blackstone, Equity, Lehman, Macklow, Beacon Capital, etc. in cities such as Seattle, Washington DC, Orange County, Chicago, NYC and Denver in 2006-07. When Blackstone bought out Equity and they then flipped out of many of these properties. Blackstone took the proceeds to pay down debt to a 50-55% range. Some of the debt is not due until 2011 while other investor's have only bridge loans. These bridge loans are due now and buyers cannot obtain long-term financing.

Conley went on to review the Boston holdings starting with One Post Office Square and the lease renewal with Putnam Investments. Putnam is in a growth mode and the firm indicated it was hiring new employees and raising new funds for investment purposes. A state of the art, video was shown to the audience.

He then showed a short marketing video of 100 High St. and how Equity transformed the property from a 150 Federal address to 100 High St. address. The building has 250,000 s/f for lease and Equity reconfigured the hallway lobby from Federal St. to High St., eliminated the ground floor retail component, redesigned the building and invested $12 million. It took nine months to obtain city approvals and now it will be ready to occupy by spring '09. The asking rents will range from $40-70s per s/f depending on the floor location.

Conley moved on to 225 Franklin St. and he indicated that it wasn't moving along as best as they wanted so a video was developed. Bank of America had an expiring lease and was not too enthralled with the building's appearance, floor plate layouts, lack of window lines, etc. Equity made a video with a helicopter view of the area, hi tech signage on the top of the building, proposed renovations with pop-up furniture, a tour of the cafÃ©, fitness center and a very viable and alive building. He sent the video to each executive at Bank of America and offered signage rights and was able to seal the lease transaction.

Other tenants that Equity has executed in the Boston area included Microsoft, State Street Bank, Fiduciary Trust, Citizens Bank, Burns Levenson, Lahey Clinic, etc. Conley suggested that it was not only large deals that they were interested in completing. This year Equity has closed on 750,000 s/f of small deals and many under 5,000 s/f. Equity can turn-around comments on offers within 48 hours and can complete lease negotiations in 5 weeks. They want to be as accommodating as possible. Equity will work on repositioning their projects over the next 3 year period and invest $120 million on capital expenditures by renovating restrooms, common area, cooling towers, front entrances, etc.

He wants to focus on tenant renewals and tenants are more likely to renew because: 1) It is less costly to renew than move, 2) Less company interruptions, 3) Tenants get shorter term deals, 4) Employee recruitment is not as important, and 5) Tenants want to conserve capital. There are not a lot of buyers for large assets either so the timing for repositioning makes sense. Conley mentioned that a bright spot is that construction material costs should be coming down although many of the contractors currently have a 6-month backlog of work. The only savings left now is the contractor's profit side of the pricing so there is not much room for cost reduction until the backlog is worked off.

Conley is also experiencing a lot of smaller deals "on hold" or pausing with expansion plans. This has been more of a psychological issue and activity is probably off by 20%. However, the Boston area properties have an overall occupancy of 90% and may bottom out at 87%. He wants to work hard to get back over 90%. They leased 1.7 million s/f in 2007 and project 1.8 million s/f in 2008.

We would like to thank Equity Offices for sponsoring this event and Jim Boudrot and Ned Leeming for once again doing a great job organizing the last event of the year.