



Harboring a Dream in Boston

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After decades of plans gone awry, developer Joe Fallon is changing the waterfront skyline.

Developer Joe Fallon searched harbors up and down the East Coast for the right spot to build a new mixed-use project, but he found the perfect acreage right in his own backyard, along the waterfront of South Boston. Sailboats ply the waves, and nearby a transit station drops off thousands of workers heading to the financial district.

The 21 acres have a rich history. In the 1960s, they had belonged to a prominent restaurateur, Anthony Athanas, who also had hoped to develop the waterfront. Later, the Pritzker family, which controls Chicago-based Hyatt Hotels, owned the property for 20 years and aimed to develop it, but the obstacles proved too great.

In 2006, Fallon, president and CEO of Boston-based The Fallon Co., a development firm, bought the land from the Pritzkers for \$115 million and embarked on his own ambitious project, called Fan Pier. Fallon's master plan calls for a \$2.5 billion development of 3 million sq. ft., with retail, office, medical research and residential space.

After the long decades of waiting, Bostonians have seen tangible results. The first office high-rise, One Marina Park Drive, was completed in March, and luxury apparel and home furnishings retailer Louis opened a 20,000 sq. ft. store in late April, after relocating from the chic Back Bay district.

Founded in the 1800s, Louis had long been housed in the landmark former New England Museum of Natural History building. A hair salon, café and restaurant also are settling in near the waterfront. Fallon plans to move his own corporate offices into the tower overlooking the harbor.

“If you want to live in Boston, you want to live on the water. Being on the water is a special place,” says Fallon. “We wanted to maximize the water use, the benefits that we have that no one else really can claim.” His development is near the Boston Convention and Exhibition Center, across the harbor from Logan International Airport and adjacent to the site of a planned 6 million sq. ft. mixed-use project.

Facing economic hurdles

Battling the economy hasn't been easy, as vacancy rates rose in the city and many proposed developments stalled. In 2009, the vacancy rate for neighborhood and community retail centers in the Boston area climbed to a 12-year high of 7%, according to New York-based data research firm Reis.

But builders are continuing to complete projects that were already in the pipeline when recession struck, and the new space will undoubtedly keep the vacancy rate elevated.

“Boston still has a fair amount of construction activity occurring. It's got 1 million sq. ft. of retail space that's going to deliver over the next year. That's going to slow the pace at which rents recover in Boston,” says Andrew Florance, CEO of Bethesda, Md.-based real estate data firm CoStar Group. He projects that Boston retail rents will begin to improve in 2012. “Not so much right now.”

Meanwhile, the vacancy rate for office space rose to 14%, a four-year high, according to Reis. In 2009, 794,000 sq. ft. of office space came on line in the Boston area, Reis reports. Real estate services firm Marcus & Millichap projects that another 700,000 sq. ft. will be delivered in 2010.

The loss of 35,000 jobs in the Boston area since the recession began in late 2007 has dealt a blow to the office sector, according to Marcus & Millichap. Weak rental demand is expected to drive the office vacancy rate up another 60 basis points this year to 14.6%.

“On the commercial market, we clearly have suffered,” says Fallon. “There's no question about it. We have been a victim of this recession.” Job loss has been the main trigger for the region's problems in commercial real estate, he says.

A creative strategy

As the challenges mounted, Fallon examined the demographics of the city around him, considering strengths that might benefit his development. “As you look at the East Coast, New York has finance, Washington, D.C. has government. In Boston we have 125 institutions of higher learning within a 15-mile radius.”

Employees of the institutions seemed a good fit for the planned condos. And he envisioned them flocking to the boutique shops and restaurants he had begun to assemble on the waterfront. But the Boston region offered another economic strength, its bio-medical industry, teeming with companies that conduct research in cooperation with the university medical centers.

Fallon decided to add a new component to his waterfront lineup of restaurants, boutiques, residences and offices — a pharmaceutical building that would house research labs and offices.

“Boston is one of the leaders in the country in the bio world,” he says. The renowned educational and medical facilities, such as Harvard University, have attracted so many companies that nearby space is in short supply.

The demand for bio-medical industry space has remained strong despite the rising vacancy rate for general office space elsewhere in the metro area. “We've seen growth in Cambridge to where there's no more expansion capabilities, and Boston has started to absorb that.”

The developer is negotiating with an international pharmaceutical firm that is prepared not only to expand into the Fan Pier project, but also to establish its headquarters there. Fallon plans to create a 1 million sq. ft. corporate campus for the company to conduct its pharmaceutical research.

“We're looking to get that started in the first quarter of next year, 2011. This will be first-class, a corporate signature building.” He did not identify the company.

Retail space will be built at the ground-floor level of the pharmaceutical complex. After completing the headquarters and offices, Fallon plans to continue with other phases of the Fan Pier project, erecting 1 million sq. ft. of residential space, which could include a percentage of rental units in addition to the condos. He hopes to complete the residences by 2013. The Fan Pier development has a 15-year build-out timetable.

Development financing revives

After a prolonged period in which many lenders shunned development, they are showing new interest in projects throughout the city, says Fallon. “What I am seeing, and this is all within this quarter, is a shift in attitudes toward development.”

That includes ground-up development, he says. Institutions are inquiring about available projects and asking detailed questions. Like many developers, Fallon is cautious about starting projects without a financial commitment.

“Unless we have a building that is pre-leased, we won't start a spec commercial building,” he says. The pharmaceutical building has been pre-leased. The company does plan to proceed, however, with the condos and rental apartments.

The investors have been interested in Fan Pier, the biggest project he has undertaken, says Fallon. He built the Westin Boston Waterfront Hotel, which opened in 2006, a 465-unit apartment building and other structures in the Boston area, but nothing approaching the size of the nine-block Fan Pier development.

Meanwhile, mixed-use projects by other developers are rising near the harbor. Some had been delayed or reduced in scope by financing problems. Outside the city, newer power centers such as Bay State Commons in Westborough, Mass. are drawing interest.

“Things are starting to come back, and we're definitely seeing more activity in the financial world,” says Fallon. “Developments like this — there aren't a lot of them and there's great interest by investors because it is on the water. It does about the financial district, and we have great activity here.”

The developer has worked with the real estate division of Massachusetts Mutual Life Insurance Co. for years. But he says that each building in the complex is treated differently. Each structure is financed individually, as lenders take into account the building's use and the lender's area of specialty.

Fallon plans to hold ownership of the 500,000 sq. ft. office building long-term, and to consider options for the upcoming structures. “It depends on the profile of our investors, and we'll work with them on what best suits them.” He is flexible about the number of office towers.

“We have the ability to do four office towers, but again the flexibility is there to convert those to residential, so we could do two.” The current plan is to construct three towers, he says. The law firm Fish & Richardson has leased 30% of the first office tower, amounting to 124,000 sq. ft. Fallon plans to move his offices to the new building on June 1.

Although there are signs of improvement in the office market, he believes it will be another year or two before leasing and occupancy rates recover.

The developer has gone to some lengths to ensure that the project will meet high environmental standards, including those of the U.S. Green Building Council. The new office building is gold LEED certified. Even the six-acre marina meets LEED standards.

The marina will be able to accommodate yachts such as those participating in last year's Volvo Ocean Race. Fan Pier hosted their Boston arrival. “We ran it out of my office,” he says. The colorful spinnakers filled the waters off Fan Pier after crews raced up from Rio de Janeiro during a 37,000-mile nautical battle.

That color and energy are what keep Fallon excited about the waterfront, and he has no regrets about buying the property that languished for so long, awaiting the right developer. “We're still thrilled that we have this site under control.”

Denise Kalette is senior associate editor.