

Waterfront Ambitions Rise in Boston

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By Keith Schneider

Boston- In the last decade, two monumental public works campaigns – a cleanup of Boston Harbor and the infamously protracted Big Dig – were completed that were expected to set the stage for a 21st-century transformation of downtown Boston.

In April 2008, a city agency produced a summary of 250 construction projects that were planned or had already been approved: soaring office towers, biotech innovation centers, downtown shopping areas and thousands of rental apartments, lofts and condominiums.

Fourteen months later, a quarter of the projects from that \$12 billion list are being built, and three of the largest are along the city's waterfront.

At 280 Congress Street, Russia Wharf, a \$550 million 32-story office, residential and retail project is rising from a collection of late 19th-century mercantile buildings. Across the Fort Point Channel, the Fallon Company is completing a \$275 million 18-story office building at Two Financial Center – nears completion.

According to the Boston Redevelopment Authority, the municipal agency that prepared last year's summary, the three office buildings are the city's first since 2004.

A number of prominent Boston developers assert that there may be no others for at least three years and maybe longer. Referring to the economic downturn and credit squeeze, Joe Fallon, the principal of the Fallon Company, which is developing Fan Pier, said: "We've never lived through anything like this. If money would loosen and banks get back to doing what they are supposed to do – lend money- we would start more construction here. Before the downturn, we were seeing a big demand for premium office space."

Indeed, before the downturn this 379-year-old port city made enormous public investments in infrastructure over two decades. In 2000, the city and state completed the \$3.9 billion cleanup of Boston Harbor, a 14-year project that produced a state-of-the-art sewage treatment plant and a tunnel to release treated sewage 9.5 miles offshore.

The \$15 billion Big Dig, which ended in 2007, provided new transit lines, moved Boston's central highway underground, replaced a 1950s-era elevated highway with an expansive green boulevard, and opened access to the city's much cleaner shoreline.

"We've seen two major trends in the last couple of years," said Kairos Shen, Boston's chief planner. "The first is that the infrastructure investment made it possible for the city's center of gravity downtown to steadily move eastward toward the harbor. The second is that the recession and credit crisis have slowed that movement."

Among major developments that have been delayed are One Franklin Street, a 1.2-million-square-foot, \$700 million mixed-use project between the Boston Common and the Financial District that ceased construction in November because the developer, John Hynes III, was unable to secure a \$400 million construction loan.

Also, the \$800 million Columbus Center, between the Back Bay and South End neighborhoods, which was to include a 40-story office tower, did not break ground.

The three office developments that are under way were financed before the credit crisis, and they reflect market opportunities made possible by new infrastructure and new policy.

Two Financial Center, which is being built along the Rose Kennedy Greenway, the grassy boulevard that replaced the elevated highway, is a joint venture of the Lincoln Property Company and ASB Capital Management. In October, the partners landed KPMG, an accounting firm, its anchor tenant.

Boston Properties, the real estate investment trust that is developing Russia Wharf, said last year that the Wellington Management Company, a major investment advisory and asset management firm, had leased 450,000 square feet in the project, which overlooks the Rose Kennedy Greenway on one side and Boston Harbor on the other.

Then in January, the company persuaded the city to allow it to reduce the number of condominium apartments to 65 from 215, and increase to 709,000 square feet, from 500,000, the amount of office space in the 854,000-square-foot building. The intent was to secure a loan, and it succeeded. In April, Boston Properties announced that five banks led by the Bank of New York Mellon Corporation had awarded it a \$215 million construction loan.

At Fan Pier in the South Boston Waterfront district, the 500,000-square-foot office structure, which is to be completed early next year, is the first of eight office and residential buildings planned for a 21-acre site that was bought for \$115 million in 2005 by the Fallon Company and two partners.

The mixed-use harbor side community that Mr. Fallon envisions at Fan Pier would span nine blocks with 1.1 million square feet of residential development; 1.2 million square feet of offices; more than 300,000 square feet of ground-floor retailing, restaurants and cafes; a 175-room hotel; a marina; and 107,000 square feet of civic and cultural space. The projected total cost is \$1.1 billion.

Construction of the first building began last September. The building was viewed as confirmation of the city's plan for the South Boston Waterfront, a one-block 1,000 acres of surface parking and empty warehouses that we'll eventually have 20 million square feet of offices, institutional, commercial and entertainment space and 8,000 units of housing. Some 7 million square feet of construction has been completed.

Meanwhile, the office market is softening. Colliers Meredith & Grew, a commercial real estate company, says office vacancy rates in Boston have risen to 11.5 percent and could reach 13.5 percent by 2012. A year ago, the rate hovered around 5 percent.

But Mr. Fallon is still optimistic. On a warm blue-sky day, he was in the sales office at Fan Pier, where the harbor, the Fort Point Channel and Boston's downtown skyline were reflected in the glass of his

new office tower. "We're going to finish early next year," he said, "and when we do, we'll have the best place to work on the entire waterfront. Just look at how beautiful it is here."