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OFFICE

STATE STREET
BANK BUILDING
BOSTON, MASSACHUSETTS

PROJECT TYPE

Repositioning of a 31-year-old high-rise office building in the heart of Boston's financial district. In the late 1980s, this building was in danger of slipping into Class B status, with a corresponding loss in value. In 1989, a three-phase, \$98 million rehabilitation program was initiated that included improvements to the plaza, lobby, and building systems in addition to extensive asbestos abatement. Today, all of the renovated space (the upgrading of some of the middle floors is still in progress) has been leased at rental rates consistent with new Class A downtown office towers.

SPECIAL FEATURES

- Creative project scheduling
- Renovation emphasized inherent building strengths
- Dramatic contrasts between 1960s-era concrete exterior and modernized 1990s interior

MANAGER

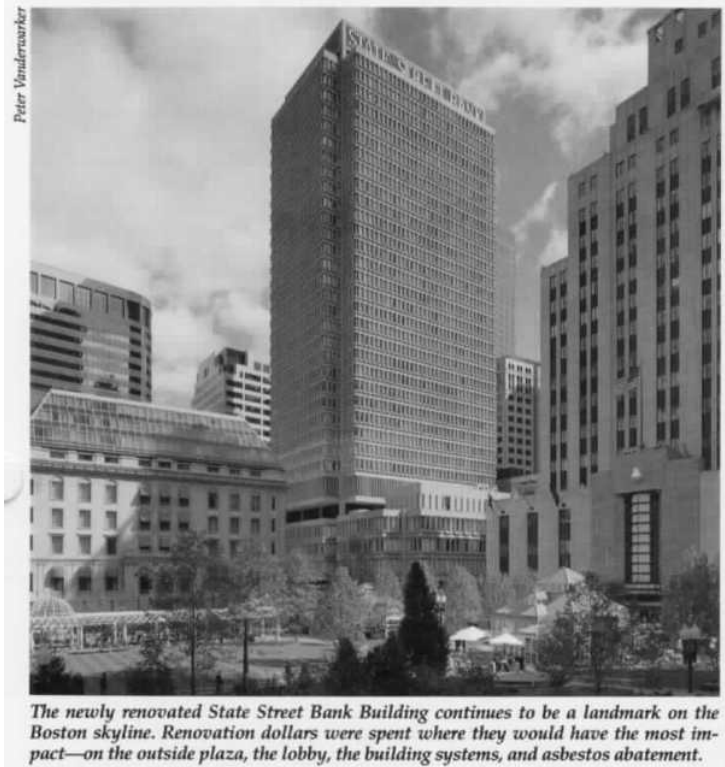
LaSalle Partners Management Limited
225 Franklin Street
Boston, MA 02110
617-451-9700

OWNER

Hexalon Real Estate, Inc.
950 East Paces Ferry Road
Atlanta, GA 30326
404-266-1002

ARCHITECT

Jung-Brennan Associates
177 Milk Street
Boston, MA 02109
617-482-2299



GENERAL DESCRIPTION

Today, many owners of high-rise office towers built in the 1960s and 1970s are faced with the decision of whether to invest in extensive renovations in an effort to compete with the newer generation of office buildings, or risk slipping into Class B status. Hexalon Real Estate, Inc., the owners of the State Street Bank Building at 225 Franklin Street in downtown Boston, took this gamble and have proved that older office buildings can have enduring value. Built in 1964, the 34-story building was the first modern skyscraper constructed in Boston's financial district. One of only two buildings in Boston's skyline with a lighted sign—a result of the city's prohibition of such signs in 1966—State Street Bank has been a familiar landmark for generations.

In 1978, Hexalon Real Estate, Inc., a U.S. REIT managed by CGR Advisors in Atlanta, bought the office building from C.P.I., the property's previous owner. However, State Street Bank retained a purchase option as a condition of the sale and continued to operate the building. In 1985, with Boston's building boom in full swing, Hexalon bought the bank's option. Despite the building's healthy 95 percent occupancy, the owners knew the status of the building was deteriorating along with its value. Inherent safety concerns as well as the state law requiring sprinkler systems in all of Boston's commercial buildings by January 1, 1997, prompted Hexalon to address the presence of asbestos in the building. The loss of a 170,000-square-foot law firm and the occupancy of a major tenant at below market rates further compromised the building's future economic viability. In addition, State Street Bank, the anchor tenant occupying approximately 450,000 square feet, was considering moving to new Class A office space.

In 1987, Hexalon made the decision to reposition the building and subsequently hired LaSalle Partners to implement the strategy and then manage the building. In early 1989, a three-phase repositioning project was initiated that included improvements to the plaza, lobby, and building systems, as well as an extensive asbestos abatement program including the cost of new tenant finishes that were necessary due to the abatement. A significant portion of this internally financed renovation was completed in March 1994; however, the final phase will take place in 1996 after a tenant vacates the mid-rise portion of the building.

REPOSITIONING STRATEGY

Hexalon Real Estate and LaSalle Partners began the repositioning by taking a hard look at the State Street Bank Building's strengths and weaknesses. Among the building's strengths are: its desirable downtown location; advantageous design features such as efficient floor plates and large window bays; spectacular views of Boston; proximity to public transportation (a major benefit in a downtown where over 75 percent of employees use public transportation); and amenities such as a spacious plaza and parking availability in the building and at the adjacent Post Office Square park and garage complex (of which Hexalon is an equity shareholder). The building's most significant weaknesses were: the presence of asbestos; antiquated HVAC, fire protection, and elevator systems; and aesthetic drawbacks such as a nondescript black slate exterior plaza, an austere, wood-paneled lobby with vast, dark spaces, and tenant floor finishes that were, in most cases, nearly 25 years old.

After estimating the costs to renovate and the expected improvement in lease economics, Hexalon elected to proceed with the major repositioning program in early 1989. At this time, the Boston office market was showing signs of deteriorating and ownership wanted to complete the first phase of the repositioning program before Class A lease rates declined dramatically.

DESIGN

Altering the building's precast concrete exterior to give it a modern look would have entailed enormous costs. It was decided to implement a thorough cleaning and concentrate the renovation dollars where they could make the greatest impact—on the plaza, lobby, and building systems. The idea was to make no apology for the building's 31-year-old exterior but to create an impression of a modern, first-class office building from one's first step into the

lobby.

The 32,000-square-foot plaza that encompasses the building on all sides was completely repaved with two types of granite pavers and numerous large raised flowerbeds were added, each one surrounded by fine marble benches. Viewed from street level, the inviting plaza softens and modernizes the exterior of the building.

The fully renovated lobby tastefully incorporates finishes of late 1980s elegance—three varieties of Italian marble, polished bronze, mahogany paneling and latticework. The renovation also includes new mechanical, plumbing, and electrical systems, an emergency electrical system, modernization of the building's elevators and an architectural renovation of the cabs.

CONSTRUCTION

The 33 tenant floors above the lobby level of the building are divided into three sections, each served by an independent bank of elevators: the low rise section (comprising floors 2–12); the mid-rise section (floors 13–22); and the high-rise section (floors 23–33). Because the building was heavily occupied during the renovation, the construction was scheduled in phases. LaSalle Partners believed it was imperative that the tenants' daily business operations be interrupted as little as possible. From the beginning, LaSalle stayed in constant communication with the tenants, letting them know what to expect during each step of construction, and responding to their concerns.

The first phase of the repositioning program—the renovation of the main lobby, plaza, elevators, and other public areas—was substantially completed by late 1990. To minimize tenant disruption, half of the lobby was completely renovated before work on the second half began. Work in the elevator lobbies was also scheduled in phases to ensure that appropriate access to all floors was maintained. Elevators that served fully occupied floors were refurbished mostly at night and during the weekends. The renovation of the plaza was as carefully scheduled as the interior. By dividing the plaza into eight sections and working on only three sections at one time, access to two of the four lobby entrances was always available.

The 11 floors in the high-rise section of the building (floors 23–33) also were renovated during the first phase of the program, beginning in March 1990 and completed in early 1991. The general contractor had the luxury of working primarily in vacated space during this phase of the project.

The second phase of the repositioning program in the 11 low-rise office floors (floors 2-12) was the most challenging in terms of scheduling and logistics. Since State Street Bank had renewed its lease for this space in 1990, asbestos abatement, which must be done in a totally contained environment, had to take place in occupied space. Furthermore, the comprehensive nature of the tenant fit-out mandated that the floors be empty for the contractors. To isolate workspace and keep the tenant functioning at the same time, it was decided to relocate bank employees two floors at a time to temporary office space located on vacant high-rise floors. The renovation of the low-rise floors and the restacking of State Street Bank was completed in early 1994. The final phase of the repositioning of the State Street Bank Building began in November 1995, when the mid-rise space (floors 13-22) was vacated. These floors are projected to be available for occupancy in January 1997.

MARKETING

The renovation had a significant impact on tenant retention, specifically that of the anchor tenant, State Street Bank. Hexalon's ability to convince State Street Bank that the renovation would transform the building into a facility that would be functionally and aesthetically competitive with new buildings resulted in the tenant renewing its lease for a 20-year term. Another 225,000 square feet of space in the high-rise section was leased by LaSalle Partners before renovation of that section was completed. LaSalle Partners currently is marketing the 250,000-square foot, mid-rise section to prospective tenants.

The repositioning of the State Street Bank Building generated an approximate 25 percent improvement in lease economics on the 700,000 square feet leased since the commencement of the renovation. This was the approximate spread in rental rates between Class A and Class B buildings in Boston from 1989 to 1992, the period when most of the space was leased. The real estate and business communities in Boston have confirmed that the renovation has secured the State Street Building's position as one of the city's premier Class A office buildings.

EXPERIENCE GAINED

- Do whatever is reasonably possible to minimize disruption of tenants' daily business activities when renovating a building.
- Communication with tenants and neighboring buildings is vital. Tenants and neighbors are more tolerant of unavoidable inconveniences caused by a major renovation if they are fully informed about the end result of the program and are given frequent up-to-date information concerning planned renovation activities.
- Give the project early credibility. One of the most successful decisions coming out of the State Street Bank Building repositioning was to completely renovate half of the lobby before starting the second half. Although this was not the least expensive approach, existing and prospective tenants were able to fully appreciate the finished product at an early stage.
- View the contractors as employees. LaSalle Partners held contractors to the same high standards regarding tenant service that it holds for its own employees. Tenants viewed all contractors in the building during the renovation as direct extensions of the owner and manager. The attitude and demeanor of the contractors did much to defuse potential problems with tenants during renovation of the State Street Bank Building.

PROJECT DATA

LAND USE INFORMATION

Site Area: 1.2 acres

Gross Building Area (GBA): 1,080,821 square feet

Net Rentable Area (NRA): 916,637 square feet

Typical Floor Size:

Floors 1-5:	50,000 square feet
Floors 6-3:	25,000 square feet

Floor/Area Ratio: 20.68

Total Parking Spaces: 200 underground

LAND USE PLAN

	Acres	Percent of Site
Buildings	0.8	67%
Landscaped Areas	0.4	33%
Total	1.2	100%

OFFICE TENANT INFORMATION

Percent of NRA Occupied: 72 percent (28 percent vacancy represents mid rise space presently under construction)

Average Annual Rents: \$36 per square foot

Average Length of Lease: 5 to 10 years

Typical Terms of Lease: 10-year term, gross rent, operating expenses and real estate tax escalations annually, parking, electricity billed directly by utility, up-front tenant improvement build-out allowance, no free rent.

Typical Tenant Size: No "average" size is reflective; at present, two tenants comprise 700,000 rentable square feet; 14 tenants comprise the remaining 216,000 rentable square feet.

Largest Tenant Size: 450,000 square feet (approximately)

THREE PHASE RENOVATION COST INFORMATION

Category	Phase I	Phase II	Phase III	Total
Plaza	\$4,328,000	-	-	\$4,328,000
Lobby	5,451,000	\$494,000	-	5,945,000
Public areas	1,629,000	779,000	\$1,336,000	3,744,000
Arch maintenance	2,085,000	1,003,000	901,000	3,989,000
Restacking	-	1,684,000-	-	1,684,000
Life safety	>2,260,000	985,000	737,250	3,982,250
HVAC	8,570,000	7,103,000	2,807,000	18,480,000
Elevators	1,731,000	-	465,000	2,196,000
Plumbing	244,000	138,000	-	382,000

Electrical	1,764,000	1,697,000		3,461,000
General contractor fees	6,516,000	1,620,000	1,034,000	9,170,000
Asbestos abatement	11,796,000	10,582,000	6,697,000	29,075,000
Consultants	4,907,000	1,523,000	320,000	6,750,000
Administrative	2,157,000	1,036,000	508,000	3,701,000
Bus duct	-	<u>1,310,000</u>	-	<u>1,310,000</u>
Total rehabilitation cost	\$53,438,000	\$29,954,000	\$14,805,250	\$98,197,250

DEVELOPMENT SCHEDULE

Site Purchased: 1978

Planning Started: 1987

Construction Started: 1989

Leasing Started: 1989

Project Completed:

Phase I-1990

Phase II-1994

Phase III-1997

DIRECTIONS

From Boston Logan Airport: Take Sumner Tunnel to Route 93 North. Follow for approximately one-half mile to High Street Exit. Go to intersection of High and Pearl streets. Building is located on northwest corner of that intersection.

Driving Time: Approximately 15 minutes in non-peak-hour traffic.

The Project Reference File is intended as a resource tool for use by the subscribers in improving the quality of future projects. Data contained herein were made available by the Development team and constitute a report on, not an endorsement of, the project by ULI - The Urban Land Institute.

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1025 Thomas Jefferson Street, N.W. Ste. 500w, Washington, D. C. 20007-5201

Peter Vanderwerker



The newly renovated State Street Bank Building continues to be a landmark on the Boston skyline. Renovation dollars were spent where they would have the most impact—on the outside plaza, the lobby, the building systems, and asbestos abatement.



Before and after upgrading the lobby. The renewed Class A status of the building is evident immediately upon entering.



The mahogany lattice work in the "new" elevator bank is a prominent theme throughout the building's common areas.

