

New Day For New England

Despite slow population growth, retail is still a hot commodity in New England.

Moderated by Jerrold France, Randall Shearin and Stephanie Mayhew.

Shopping Center Business and Northeast Real Estate Business recently held their inaugural New England Retail Roundtable at the Boston offices of Goulston & Storrs. Developers, brokers and lenders from the greater Boston area came together to discuss the current retail activity in Boston and throughout New England. Attendees were: Steve Karp of New England Development, Jeremy Sclar of S.R. Wein-er, John Roche of the Flatley Company, Doug Husid of Goulston & Storrs, Allan Rottenberg of Goulston & Storrs, Edward Jordan of Marcus & Millichap, Mike Jacobs of Glickman Real Estate, Don Mace of Finard & Co., Robert Sheehan of Finard & Co., Mark Mancuso of CBL & Associates, Ted Chryssicas of Meredith & Grew, Rick Talkov of Goulston & Storrs, and James Young of General Growth Properties.

SCB: We always hear that the barrier to entry for retail is tough in New England. Is there any truth to that?

Sclar: Today, the barrier [to entry] is as big as it has ever been. There are a few unique projects that get people excited. The reality is that there are fewer sites available, and the sites that are available have lots of issues. We have been doing this for 20 years in New England and it has never been more difficult to get a permit. Every town that you go to wants a high-end lifestyle center. You can be looking in a trade area where the market doesn't warrant that kind of mousetrap and that's what the expectation is. Tolerance for traffic is lower than it has ever been. There are some places where these New Urbanism-type projects get a community excited. Over the whole geography of New England, it has gotten tougher.

Chryssicas: Are you finding that further out from the city?



(left to right) Steve Karp, Robert Sheehan, Don Mace, Scott McIsaac and Mike Jacobs.

Sclar: Yes. In Mansfield, where we are under construction today, we started permitting that project years ago. We are building a shopping center with L.L. Bean, Ann Taylor Loft, Borders Books and lots of restaurants. This is a community that 7 years ago permitted a shopping center without much controversy. Ten years ago, we would have had the permit within 6 months. Now, it takes more than 4 years. This is a trend everywhere we go. The sexy, great mixed-use projects get people excited, but you still have to wrestle with the traffic ramifications.

Jordan: In leasing up the retail component of mixed-use properties, are retailers looking to the residential for demographics or are they looking at the broader demographics of the area?

Sclar: My opinion is that the residential component is the gravy. In a trade area of 300,000 people, you are looking at the people, and the gravy is going to be who lives right on top of you. If you don't have a trade area, it doesn't matter how many houses you build on top; it is not going to drive sales.

Karp: The biggest problem is that it is really hard to build these projects with deck parking. You can't build underground parking in locations where you can't charge. The costs of construction

have gone up so fast the past few years that if it isn't paid parking and you put too much density in the site, the numbers are beginning to tilt a little bit. Rents are not going up as fast as costs are.

SCB: As developers, have you seen the costs of construction materials increase? Is it preventing you from moving faster? There is competition developing nations that are driving our costs up as well.

Young: It has turned. A few years ago, it was going crazy. The steel price and the price of concrete, concrete block and sheetrock. Now, China is shipping materials back to us. A lot of the materials that we are using are coming from China. I'm told the quality is American standard. Granite, for example. Even with that heavy weight, we're seeing it shipped from China to Brazil and then to the U.S. — and it is less expensive than domestic granite.

Karp: Don't get the impression that construction costs are less, because they are not. We can't get a handle on budgets [because construction costs] move so fast now. Prices are still going up.

Jacobs: In Central Massachusetts, we were attempting to do a single-tenant big box with some ancillary retail. We



Ed Jordan

were using prices of 3 years ago. We needed to establish the price for a two-level parking deck. The prices were almost double. It set the project sideways.

Young: I didn't mean to imply that prices were low. The curve has just slowed down.

Mancuso: Construction costs have put a lot of pressure on margins. When you build a project, the tenant can only project so much sales volume, which translates into a rent. We've seen 10 percent to 20 percent increases in hard construction costs, so something has to give. In our case, it has been the rate of return on our investment. Interest rates have been reasonably low, but recently they have gone up. Our spreads are really thin.

SCB: General Growth is redeveloping Natick Mall. Can you tell us about that project?

Young: I am from the construction side of our business. We are currently doing an expansion of Natick Mall. We're [just finishing] the interior upgrade and remodeling. We bought the old Wonder Bread factory and knocked that down. We excavated 500,000 cubic yards and built structured parking underneath and added on to the mall. It will be about 75 percent larger than the current mall. We are adding Neiman-Marcus and Nordstrom. This will be Nordstrom's first location in Massachusetts. We are also developing a 221-unit condominium project on top of the mall, with a separate parking deck.

Mancuso: How has the residential aspect of Natick Mall been accepted? It is a very different concept — putting condos on top of a mall.

Young: The construction is just getting above six or seven stories and suddenly you can see it from the street. There is more interest of course. We have received over 200 deposits from interested buyers. The condos won't be ready

until spring 2008. We didn't want to have 200 people moving into the mall during the Christmas season.

Chryssicas: Has General Growth done this elsewhere?

LIVING AT THE MALL

The newly redeveloped Natick Mall in Natick, Massachusetts, is set to change the face of retail in New England. "Already a shopping destination in Massachusetts, the redevelopment and additions to the existing Natick Mall will provide a luxury shopping experience for an underserved market," says Frank Lazorchak, general manager of the Natick Mall. The mall, which will hold its grand opening in September 2007, will consist of the renovation of the existing 1.1 million-square-foot mall and a 550,000-square-foot expansion wing.

Renovation of the existing mall was completed this month and features updated flooring, restrooms, ceilings, balustrades and a completely renovated food court. The expansion wing will house the state's first Nordstrom, which is slated to open in September 2007, and the state's first suburban Neiman-Marcus, which is also set to open in September 2007. The existing mall houses Lord & Taylor, Macy's and Sears, plus a JC Penney, which will open up in March 2007. The development will also include 100 luxury retailers and fine restaurants.

In addition to the retail component, 215 luxury condominiums will attach directly to the center. The new units are scheduled to open in February 2008. The property also contains a set-aside pad for a 4-star, full-service hotel. The retail and residential portions were developed by General Growth Properties and designed by the architectural firm Beyer, Blinder, Belle. Other amenities include valet parking, a car spa and premium paid parking.

Located just a mile from I-90 in the western suburbs of Boston, the mall is located in the second most affluent suburban trade area in the nation. "By 2007, the expenditure potential for shoppers' goods and merchandise is projected to reach \$3.6 billion — an increase of 37.3 percent from 2001. Incredibly, the fashion specialty classification will swell to \$1.6 billion — a gain of 55.9 percent over 2001. Natick attracts roughly 17 million customers annually and research shows that the center has dominant penetration throughout the trade area," says Lazorchak.

As the area's population continues to grow and with an average household income of more than \$100,000 per year, the Natick Mall could not be in a better position. "With the expansion, the trade area is projected to double in size to 1.3 million residents. Presently, the center's trade area is home to approximately 660,000 people and 250,000 households. In addition, there are more than 1.3 million people within a 15-mile radius. The trade area is affluent with an average household income of \$115,863," says Lazorchak. Lazorchak also notes that the surrounding office space is another factor that affects the trade area. Within a 3-mile radius, daytime employment is 73,014 and it is 100,891 within a 5-mile radius.

Natick Mall developers are targeting female shoppers ranging from 25 to 54 years of age with an average household income of \$115,000 per year. Once the expansion is complete, developers will be targeting shoppers with a household income of \$150,000 per year. According to Lazorchak, area customers are anxiously awaiting the mall's transformation as are Natick town government officials. The Natick Mall is anticipated to provide tax payer revenues for future civic projects throughout Natick. — Stephanie Mayhew



The redevelopment of the Natick Mall in Natick, Massachusetts, will consist of the renovation of the existing 1.1 million-square-foot mall and a 550,000-square-foot expansion wing.

Young: This is the first for anyone, so we are being watched a little bit. There are plans to do this all over the country.

Chryssicas: Steve [Karp], has the downturn in the housing market in Boston impacted your development plans in Westwood?

Karp: No, but I think we will do more rental than for-sale units. There is a pent-up demand for that market out there. Two years ago we would have been developing more condos than rental. We are doing a mixed-use project in Chestnut Hill, but there are a few things going on in that market that make it different. The Filene's at Chestnut Hill Mall will become a full-size Bloomingdale's, so they will have Bloomingdale's at both ends of the mall. The old Bloomingdale's will become a Macy's. We are doing a project across the street with Whole Foods and a few hundred thousand square feet of lifestyle tenants and restaurants. We are doing housing, but we will have condos there because we think the Chestnut Hill market is deep enough that there is a demand. We will build two condo towers there that are more a type you would see downtown than in a suburban location.

SCB: This is such a great urban market. How is the on-street retail in Boston? Is there still a lot of opportunity for retailers to enter the market?

Mace: The demand is extremely strong from retailers. Boylston Street and Harvard Square are lined with tenants who are vying for the best spots in those areas. We are starting to see new tenants with some different concepts coming into the market. There are some existing retailers who are testing new concepts. Best Buy continues to talk about a new concept. There are some alternative pharmacies, like Elephant pharmacy, who are trying to enter. Citibank is trying to penetrate New England. They are taking some of the best retail spots.

Chryssicas: There are some London-based retailers coming over as well. Charles Tyrwhitt is trying to get over to follow Thomas Pink, who came over a few years ago. Zara has not found a home in Boston, even though they have



(left to right) Rick Talkov, Ted Chryssicas and Mark Mancuso.

been looking for a long time. There is not enough product here. Even on Newbury Street – half the space is walk-ups and walk-downs. These national and international retailers don't find that acceptable. One huge opportunity, if it can ever be orchestrated, would be Rose Kennedy Boulevard. You are anchored by North Station and South Station. Once the [road] construction is completed, you will see this become a huge shopping boulevard, especially with the addition of some new hotels here.

SCB: Has Boston's Big Dig been a plus or a minus for retail? [Editor's Note: Boston's Central Artery/Tunnel Project is known as the "Big Dig." While replacing Boston's six-lane elevated highway with an eight-to-ten-lane underground expressway, the project also created 27 acres of green space where the former highway was located. Construction is still underway on some development parcels in the area.]

Sheehan: There has been no influence at all. It hasn't spurred growth in retail or dissuaded anyone from coming.

Chryssicas: With the sale of Marketplace Center for \$1,000 per square foot, they are envisioning something grand along Rose Kennedy Boulevard. There hasn't been any impact as of yet, but everyone is planning for the future where they can. There aren't many opportunities. I do think that people are planning for the future and that is what is driving up the values.

SCB: Boston is a great restaurant town. Are there new restaurants coming to town, or are most of them local?

Chryssicas: The nice thing about Boston is that there is a healthy mix of chef-driven restaurants, local restaurants and national players. In the North

End and the Back Bay, there are great chef-driven and local restaurants. And for the business traveler we also have McCormick & Schmick's, P.F. Chang's, Smith & Wollensky and Maggiano's. We have a nice mix. There is a lot of pent-up demand hovering around the Boston market right now.

Sclar: We have never seen the amount of restaurant demand that there is today.

Chryssicas: Warren's is signing up for a second restaurant in Boston. Kona Grill is looking and J. Alexander's is looking. Houston's is hungry for another spot because they are doing so well in Faneuil Hall.

SCB: The banks and drug stores are competition for more traditional retailers when it comes to finding space. How is that competition faring in the Boston market?

Sclar: The drugstore business has been a constant for a number of years in the market. Both Walgreens and CVS have been very aggressive. They have penetrated a lot of the better spots. The bank competition isn't what it is in metro New York. There are a few players there that are aggressively paying numbers that we haven't seen in Boston. I expect that to happen here based on the arrival of Citibank and a few other new players who are looking around.

SCB: How is Boston as a market for investors?

Jordan: Construction prices require higher rents to justify developments. That trickles down to the price per square foot that we are selling existing product for. It used to be at \$200 per square foot you could start building. Now we are seeing area retail product

trading north of \$200 per square foot and commanding good attention in the investment market. Demand is constant here, whether it be pharmacies or restaurants. The problem in Boston is on the supply side. There is only about 1 percent growth in retail space annually. The obstacles to development here are high. It creates a healthy environment here for the transactional business. There was a lot of doom and gloom coming into 2006 with regard to demand for retail because of the home equity activity starting to dry up. There was doom and gloom regarding where cap rates might go and demand for investment properties. Last year we sold \$5.5 billion in retail products, about 1,900 retail transactions. This year, we are tracking over those numbers. The demand is still there for investment-quality, credit-tenanted product. Cap rates have plateaued, but we don't see them moving up at all. On B and C class assets, cap rates are probably decompressing a little bit, but it is more driven by the fact that investors and lenders are looking at cash flow a lot



Mike Jacobs, Ed Jordan and Doug Husid.

more closely for the first time. The market is still there. Last year we had 10 to 12 potential buyers for every asset and this year it is down to five or six. We are still getting very competitive prices for these properties. Retail is a product type of preference for most investors. Many people coming out of multifamily and looking to exchange are doing so into strip centers. Boston is a very healthy investment market. We are opening an office here in January.

SCB: Do you have investors from the market itself or are they from outside the market?

Jordan: We import capital. Out-of-state investors are buying on the numbers. They don't have some of the local prejudices regarding particular submarkets.

SCB: Who are the buyers? Are they private or public?

Jordan: Most of what we do is private equity. We are positioned to access that private equity. We do institutional business as well. The sellers are a mixed bag. People sell for different reasons. Some of that business falls in our lap, some falls with our competitors. We are very bullish on the New England market right now. We face the same problem that brokers on the leasing side do – there is not enough supply.

Roche: In Central Massachusetts, there is much less inventory than there is here in metro Boston. Most of the landowners are holding their properties. They have no interest in selling. We have seen only two or three shopping center sales this year. That covers the entire grid of Worcester County.

Mace: I see a lot of players coming into the market. Cedar Shopping Centers has acquired a number of shopping centers over the last year. Equity One is still looking at a lot of property. Most of the product that we are servicing today is grocery-anchored and that market is very strong.

SCB: Scott [McIsaac], as a lender, how does John Hancock look at this market?

McIsaac: Hancock has always been a very strong retail lender. We have traditionally concentrated on the neighborhood and community center end of the pool. There is a lot of activity with

LEAVING A LEGACY

Legacy Place is 735,000-square-foot lifestyle center in Dedham, Massachusetts. The project is being developed by a joint venture between W/S Development and National Amusements. The property is situated at the intersection of I-95 and Route 1, one of the busiest commercial routes in all of New England. Just 15 minutes from downtown Boston, the new center will serve a bustling residential area that is home to several residential developments, but very little retail. There are approximately 300,000 people with in the primary trade area with household incomes of roughly \$100,000 per year. The area also serves 171,000 daytime employees.



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David Fleming, the corporate marketing director for W/S Development, says, "Legacy Place is a nice combination because it has great roadway access, close proximity to a multitude of housing and it is near the Boston Commuter rail station." Anchor tenants include a 60,000-square-foot Whole Foods and a 16-screen, 91,000-square-foot Cinema de LUX. Other tenants include L.L. Bean, Anthropologie, Urban Outfitters, Legal Sea Foods, P.F. Chang's and Ruth's Chris Steakhouse. Designed by Prellwitz/Chilinski Associates, the center combines New England architecture with modern design elements. "In New England there are not too many lifestyle centers, so the combination of the tenants and the architecture is really what makes Legacy Place truly unique to the area." The development is slated to break ground in January 2007 and is scheduled for completion spring 2008. The center also contains an approximately 100,000-square-foot office component, which will house the headquarters of National Amusements.

the power centers. We have done some. We are a bit concerned about exposure to individual credits. The market is very strong and the supply is very constrained. There is an enormous amount of capital out there. This year, we reeled in a little bit. We were so concentrated in retail in our portfolio that we wanted to fill out with some more office, residential and industrial. We have done that and we are back looking for more retail. Just to give you an example of how strong it is, I rolled over an existing loan that we had on a strip center in southern New Hampshire last year. We were valuing the property at \$12 million. Our loan was \$6 million. The appraisal came in at \$15.5 million in November 2005. I just got a request from a new buyer to assume the loan and the new buyer is paying \$17.5 million. That is a 6 cap on a tired, 30-year-old center in Southern New Hampshire. It is wild out there. Our traditional underwriting standards for retail have been to take some reserves for leasing and capital replacements; to not underwrite less vacancy than is prevailing in the market area. We're getting beaten out on loan quotes by lenders who aren't imposing that discipline on themselves. We are getting beaten out by lenders with lower debt coverage ratios than we have traditionally required. There is too much money chasing too few good deals. It has led to some erosion of underwriting standards that can't be sustained for the future. Landlords used to use the financing source as the bad guy in order to have some negotiating clout with the chief ten-

ants. The landlords have lost some clout and the tenants have gained some clout in negotiating leases. We have turned down some deals because we didn't like some of the lease provisions. At some point, the capital cycle will turn and that balance of power will shift again.

SCB: When you have a lot of money out there chasing a little product, do you find that people are not making as prudent an investment?

McIsaac: It depends on whether you are the one who won the deal or the one who didn't.

Jordan: Maintaining the quality of the underwriting is the challenge. Just as you are competing with other lenders who might be applying other underwriting criteria, we also compete for listings with other brokers who apply other criteria. We try to maintain standards. Going into the next 12 to 18 months, there will probably be more emphasis on selling the business plan versus selling the asset. We are finding that we need to show the road map for the new owner in terms of meeting their target yield than we did over the last 12 months when they simply lined up to buy. There is a subtle shift, but as long as properties are priced to deliver a target cash-on-cash return, product is still selling.

Rottenberg: Regarding the Big Dig and Rose Kennedy Boulevard, I just don't see the theme yet to what the Big Dig is going to do and what they want



Jeremy Sclar

on the greenway. I think it is a real opportunity. It is a once-in-a-century opportunity to create something between South Boston and the Big Dig. The greenway issue needs to come into focus more.

McIsaac: There hasn't been a lot of planning vision applied to that. You see nice renderings of landscaping on [the greenway] but not too much in terms of what the program and concept is behind it.

Roche: Most of our development surrounds Boston. We have a lot of projects going on in New Hampshire. We have one in Portsmouth where we tore an office building down and created a big box with some other smaller retail. We pushed into Rochester, [New Hampshire], which is a voided market between Portsmouth and Conway. We've got another mixed-use project that we are starting in Merrimac, which is office, industrial and residential. We've been focusing more northward and in southern and central New Hampshire. We have experienced some problems with permitting. The existing projects where we are redeploying the uses seem to go faster simply because the cities and towns are looking for something to happen for a particular asset. The projects on vacant land take more time and money to get permitted. There has also been some substantial mitigation to get these projects through, which adds to their costs as well.

SCB: Is the trend today in the smaller markets of New England is more to mixed-use type projects?

Roche: We haven't experienced that. In the smaller markets that we are in, it is strictly retail and it works fine. The one in Merrimac that I was referencing

TRANSIT-ORIENTED MIXED-USE

Situated on a 135-acre site, Westwood Station's 4.5 million-square-foot mixed-use development brings 1.2 million square feet of retail space to the heart of greater Boston. Developed by New England Development in partnership with Cabot, Cabot & Forbes and Commonfund, the lifestyle component is set within a pedestrian-friendly environment that combines retail and dining with the development's office and residential components. In addition to the 1.2 million square feet of retail Westwood Station will include 1,000 residences, 1.75 million square feet of office space and three hotels. Slated for completion in 2008, the development is within easy access to Route 128 and 1—95 and to the Amtrak/MBTA Commuter Rail Station at Route 128.



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CITYSQUARE

CitySquare, a mixed-use redevelopment that is replacing an existing grey-field mall, is situated on 20 acres in Worcester, Massachusetts. According to Barbara Smith-Bacon, vice president and project manager for Berkeley Investments, the area around the CitySquare development is designated as an Innovation District. "The buildings that were designed for this project are intended to capture the vision of the city while melding with the many beautiful surrounding historic structures from the golden age of Worcester," says Smith-Bacon.

With careful planning, the \$563 million CitySquare is a shining example of a transit oriented development and smart growth. Smith-Bacon notes that the development has been designated the catalyst project for downtown Worcester for good reason. "This project is restoring activity and vibrancy to the heart of Worcester, which had lost appeal when the existing mall, which had physically dominated the heart of downtown, fell to more modern competition," she says.

The project currently contains 485,000 square feet of existing commercial office space that is being repositioned. Future construction includes approximately 400,000 square feet of new and repositioned retail and entertainment space, all of which is pedestrian street-accessed. The project also includes 275,000 square feet of medical/clinical space, approximately 300,000 square feet of new commercial office space and 650 housing units that are being built in three phases. Once the project is complete, it will contain a total of 1.6 million square feet of mixed-use space, plus 3,900 parking spaces.

Keeping in line with the principles of a transit oriented and smart growth development, CitySquare is a walkable development with easy access to countless venues. The area will include a large central public plaza with a water feature, and a block away is the existing renovated Worcester Common, a park that features benches, plantings, and the bike path gazebo. Residents and tenants will have direct access to public transportation by bus, bike and train.

In addition, residents will enjoy many other amenities. Condominium owners in Phase 1 will enjoy concierge services, parking beneath the building, terraces and fantastic views. The development will also include local, regional and national specialty retail stores, a variety of food and beverage destinations and entertainment such as cinema, bowling and billiards.

The developer is Berkeley Investments, Inc. of Boston, Massachusetts; the owner is Worcester Renaissance LLC, c/o Berkeley Investments of Boston; the leasing agent is Glickman Real Estate of Worcester; and the architect is Arrowstreet, Inc. of Somerville, Massachusetts. Construction is scheduled to start in the first quarter of 2007 and finish in the third or fourth quarter of 2009.

is a very large tract of land. Mixed-use works for that particular project because it is 150 acres. The other tracts that might be 30 or 40 acres, we would keep strictly retail. Our experience is that office doesn't always work well with retail. The residential side can work, but I think that is more geared to the southern U.S.

SCB: Mark [Mancuso], what lifestyle-oriented projects are you developing in the Northeast?

Mancuso: One project that we are working on is in the city of Hartford, Connecticut. This was a redevelopment. It was promoted by the housing

authority. It was called Charter Oak and it was a very troubled, low-income housing project. The housing authority decided to demolish it. They put out an RFP for 35 acres and we were able to build a Wal-Mart-anchored center, which was abnormally embraced by the community. This was primarily because the residents who had been displaced wanted a place where they could shop conveniently and the Wal-Mart jobs were important to them. We were asked by the city to host a job fair, and, unbelievably, there were 4,000 people who turned out for those Wal-Mart jobs. It was an unusual experience for us because we were in an urban environment and because we developed a Wal-Mart

center where there was a warm reception. The project we are working on now is in Milford, Connecticut, across from Westfield's regional mall. We are redeveloping a warehouse site on the Route 1 corridor into retail that will be anchored by Wild Oats and 90,000 square feet of better-quality retail. We believe strongly in anchored projects. We've looked to the anchors to provide some stability to these projects so they will have a long-run future.

SCB: Has CBL shifted from being grocery-anchored in the Northeast to developing more lifestyle centers?

Mancuso: CBL has recognized, as have our peers, that the days of the enclosed regional mall development are behind us. We are developing everything from large format centers (anything from nearly 2 million square feet) down to 100,000 square feet. There are retail projects without roofs now days. Part of that is because of operating costs. Part of it is because it is a trend. We are trying to create more than a shopping or retail environment.

SCB: Are there any areas in this market that offer development potential? Where is the market moving?

Sheehan: Boston is by no stretch a growth market. Population growth is not driving much of the development here. What is driving development is pent-up demand for product that this region hasn't seen. The flavor of the day is lifestyle centers. If you inventory the regional malls in this market, you have an average age of 25 to 30 years. There has really been nothing developed for awhile. Derby Street Shops was the first real lifestyle center that I saw in New England. If you went to other regions of the country, the process had begun a number of years ago. I just moved back to this region a few years ago, and I was surprised. If you look at the affluence in this market, it is on par with lifestyle development. It is just that the development opportunities aren't as readily available as they are in other regions of the country. There is still more opportunity for lifestyle development [in New England]. Some of the projects that Jeremy's [Sclar] company is doing, I would view it as sliding

PIER 4

New England Development is also developing Pier 4, a mixed-use project set on 9.5 acres (including about 4 acres of water) on the South Boston Waterfront. The new development will include approximately 1 million square feet of hotel, residential, office, retail and civic uses. The project will replace the aging and deteriorating Fan Pier with three new buildings and an underground 1,200-space parking garage. The project will include approximately 200 to 215 residential units, a 200 to 250-room hotel, approximately 385,000 square feet of office space, approximately 35,000 square feet of street level retail, as well as other associated support areas. A new 20,000 square-foot civic space will be located on the second floor lobby of the office building. The project will promote pedestrian activity and enhance the revitalization of the South Boston Waterfront as envisioned by the City of Boston's Public Realm Plan and Municipal Harbor Plan. The project will also extend the City of Boston's Harborwalk around the entire pier edge, linking the Federal Courthouse and Fan Pier area to the World Trade Center and Commonwealth Pier. A new Waterfront Plaza is planned to engage the proposed Institute of Contemporary Art and create a dynamic new urban space on the Boston Harbor. The new Waterfront Park at the end of the pier will provide the public with unparalleled views of the Boston Harbor and city skyline.



New England Development is currently developing Pier 4, a mixed-use project set on 9.5 acres (including about 4 acres of water) on the South Boston Waterfront.

away from a pure lifestyle development to hybrid developments where you are incorporating some big box along with the lifestyle component. That's the way that the market is going to go from this point on. There are only so many places in this market where you can locate pure retail. There are only so many pockets of affluence that will support that kind of retail. In order to make the projects financially viable, you have to bring in tenants like big boxes and Whole Foods-type markets. The only places you are seeing ground-up development are on the periphery, like down in Plymouth, [Massachusetts], where there have been a few projects developed over the last few years. You have to get out beyond 495 to see ground-up projects. I think there is also an opportunity to put some fashion into southern New Hampshire. That area has a perception that there is no taste level up there. If you look at the population growth that has occurred over the last 20 years, there could be some lifestyle opportunities in southern New Hampshire. S.R. Weiner has something going on in Hudson, New Hampshire, which is adjacent to Nashua. I think it is an outstanding opportunity if they can get the entitlements. This is an area that sits on the Massachusetts line. If you go to Pheas-

ant Lane Mall on a weekend, half of the license plates are from Massachusetts.

SCB: Housing drives retail. Is there more residential moving further out from Boston?

Sheehan: In pockets. But if you are talking about regional development, you are going to wait a long time for the population to get there. If you can't do it on the existing base today there probably isn't an opportunity. There is just not rapid population growth. It is not the Carolinas or Florida. If you look at the Nashua-to-Manchester market, there is only a population of 400,000. Even if that is growing at 1.5 percent per year, it is not tacking a lot of incremental population on. You really have to judge an opportunity today based on the existing population base that's there. You have to create opportunities to take advantage of someone else's stagnant, antiquated retail that's in this market.

Chryssicas: We don't have an infrastructure to support that growth going outward. I sense there is a trend to come back to the city. In Medford and Malden, they are planning residential

near the Orange Line. Westwood Station is another example of residential near a transportation node. It could be 2 hours if you commute from Plymouth to Boston during the wrong times.

SCB: Boston proper is a unique market. Boston has more colleges than any other city in the country. Do the students have any influence on retailers coming to the market?

Karp: I don't think it has a lot of impact. I don't think I've ever seen a study where anyone could ever figure out what the real disposable income is coming from those students and where it is going. There aren't a lot of college campus-type developments that are wildly successful, at least that we've been able to identify.

Chryssicas: Harvard Square might be the exception.

Karp: That's always been one of those crazy things. That has gone through a cycle as well. The Limited put all those stores in, and then they went out. There is a change that has gone there. I don't think it was the students that were supporting that. I think a generation ago there were unique restaurants and people were going to Harvard Square because they thought it was something special to do.

Mace: We are working on a 40,000-square-foot project in Harvard Square. We spent a lot of time with the city and local groups and, point blank, the students don't spend money in the square. That is a common concern for many of the retailers who are there. The local people feel that they don't get business out of the college students, even though they have money. They are very discretionary about how they spend it.

Jacobs: We are seeing some positive results in Worcester right now. We represent CitySquare, which is the redevelopment of the central business district. It is a 20-acre mixed-use new urban district. We have about 35,000 college students in the city and no social programs or destinations for them. We have 13 colleges in the area and nine in the city. A consortium is charged with creating an intercollegiate social destination. That plays into CitySquare. The

POWER AND LIFESTYLE

Set on the South Shore between Providence, Rhode Island and Cape Cod, Massachusetts, the new 675,000-square-foot hybrid center, Wareham Crossing, will bring a unique mix of power tenants and a lifestyle section to the city of Wareham, Massachusetts. Power tenants include Target, Lowe's, Best Buy, Linens N' Things, Borders. Other tenants include Ann Taylor Loft, American Eagle, Old Navy, TGI Friday's, Red Robin, Panera Bread and Longhorn Steakhouse. The project broke ground in November and is slated for completion in fall 2007. Situated on 75 acres at the intersection of I-495 and I-195 on Route 28, the site is being developed by W/S Development and designed by architects Carter Burgess. Set along the water, the center embodies the geography of the area with New England style architecture, lush landscaping and wide sidewalks. The trade area is home to approximately 185,000 people and 70,000 households.

retailers are great. They realize there are 35,000 students who are a captive audience. They have commented that they consider college students transitional, so they are not basing their location decisions on college students.

SCB: What about Providence? Does anything draw from that market or to that market?

Mace: The Nordstrom at Providence Place is pulling from the Boston area.

Sheehan: It is a fact that the Nordstrom in Providence is pulling, but it is going to be short-lived with four Nordstrom stores coming on-line over the next several years in Massachusetts.

SCB: Has there been any impact on the market by the mergers among the grocery chains? The Hannaford acquisition of Victory is one example.

Sheehan: That has given Hannaford a platform to expand. They have added two or three new stores in the market. Stop & Shop continues to add stores to compete. They are adding some stores in southern New Hampshire. Shaw's has added one or two locations. One of the reasons for that is the lack of Wal-Mart Supercenters in eastern Massachusetts. We're seeing more Wal-Mart Supercenter development in Maine and central and northern New Hampshire.

Mace: I think we should brace for additional consolidation in the grocery industry. It seems like every time you turn around there is a discussion about what is next on the grocery level.

McIsaac: I have seen defensive ex-

pansions. You will see a Stop & Shop or a Shaw's taking down a 50,000-square-foot store and putting up a 70,000-square-foot store. That is because they already control the site and they hope that if they put that square footage in that location, it will make it that much harder for a competitor to move in down the street.

SCB: Have players like Whole Foods and The Fresh Market had much of an impact in the New England market?

Mace: I think it is one of the biggest opportunities out there right now. On the North Shore [of Boston] there is really not a Whole Foods. I live there and I think the quality of my life would improve drastically if there were a Whole Foods remotely close.

McIsaac: Wild Oats, Whole Foods and Trader Joe's are all in the market.

Karp: Target is also still expanding, but they haven't built any stores that have food in this marketplace. They are on a big expansion kick throughout New England. We are doing a lot of

Target stores as part of centers. Without Wal-Mart and Target having food components, the supermarket chains are building bigger stores and protecting their markets.

SCB: How do you see 2007 and beyond for the investment market?

Jordan: Good question. We thought we were going to see more of a shake-out in 2006. Interest rates have been the variable that haven't had a dramatic impact as suspected. There was talk about much higher rates moving forward that never really emerged. The spread between the 10-year Treasury and cap rates is tightening to the point where it is having an impact on how we price properties. Yield has to reward risk and if you can get around 5 points in a note or money market, earning 5 points cash on cash is not that attractive. Having said that, as long as there is no real dramatic spike in interest rates moving forward, I think we are going to see the A class assets stabilize and the B and C assets have cap rates decompress a little bit to deliver more cash flow. I think there will be some buying opportunities in 2007, and it still won't be a bad time to reposition equity to take money off the table.

Husid: There was a point made early on in the discussion about barriers to entry. One of the fascinating things about this market is that it is not market timing – you are building for the long-term. As a result, people stay on projects because they stay committed to things and get involved in projects that they recognize may not hit any particular cycle. There is a consistency to the market in some places. The whole no-

FEDERAL REALTY INVESTMENT TRUST EXPANDS IN BOSTON

Federal Realty Investment Trust has been steadily expanding its presence within the Boston area. Federal Realty's Boston portfolio has grown from under 600,000 square feet to more than 2.1 million square feet. Federal Realty recently acquired three properties including Linden Square in Wellesley, Massachusetts; Chelsea Commons in Chelsea, Massachusetts; North Dartmouth Shopping Center in North Dartmouth, Massachusetts. In addition, Federal Realty has expanded its Boston office with the additions of Jeremy Grossman and David Webster. Grossman joins the firm as the New England director of leasing. He will be responsible for leasing all Federal Realty's anchor and small shop space throughout New England. As the new director of development for New England, Webster will direct and manage all development projects throughout the region.



Jeremy Sclar and Alan Rottenberg.

tion of the entitlement gain and the incredible cost and lack of availability and infrastructure is driving where the development is going to be. Transit-oriented development is a significant part of what the cities and the state are going to allow. New England is a long-term healthy market. It has been strongly supported by local developers who understand that you can't time the market.

SCB: Jeremy [Sclar], as a developer/owner, how do you see 2007 and beyond?

Sclar: For us, 2007 will be a busy year. We will have a few million square feet under construction in 2007. The demand will stay constant in the market. As long as interest rates stay within the band that they are in, I think there will be continued appetite for lenders. There is an awful lot of capital out there. Our returns are lower than they've ever been, but the things they are creating are probably more valuable than they've ever been. We spend a lot of time on our existing portfolio. We are not cap rate buyers so we either create value through ground-up development or looking at existing assets and figuring out what we can do to them to make them better. Whether it is 2007, 2008 or 2009, that is our basic game plan.

Roche: Good locations continue to create demand from retailers. If you continue to maintain your existing portfolio, you will keep your tenant retention and it will remain strong.

SCB: How do you see the future of retail in the market?

Roche: I thought growth would have

strong in this market.

Chryssicas: I would have thought 2006 would have seen a slow down because of the rising interest rates. Rising fuel costs and consumer spending haven't affected retail spending much either. Boston is getting an upgrade with regard to its retail offerings and we are coming up to par with the rest of the country.

Mancuso: In 1993, CBL & Associates went public. With the pressures of the public market, we must grow, grow, grow. Over the past 13 years, a lot of our growth was really acquisition-driven. We don't buy things for the sake of buying; we think we can add value. Now, the pendulum has swung in the direction of development again. There really isn't much product out there to buy in the regional mall sector where you can increase value. Our company is looking at a consistent \$300 million to \$500 million of development volume over the foreseeable future. I see it as healthy here in New England. We are being much more selective. Our New England office is in Boston, but a lot of our development tends to be out of the region because of the high barriers to entry and a lot of upfront risk. I can go into Pennsylvania and create a project a whole lot quicker than Steve [Karp] or Jeremy [Sclar] can in Dedham or Westwood, [Massachusetts]. What I like about this area is that if you create something, you've created something with good value. There continues to be new blood coming into the market. JC Penney is very bullish about their off-mall format. They just recently opened 20 stores, which for them is a giant leap forward. Target has not fully penetrated this market. Lowe's

slowed down this year, but it hasn't. Shopping has become a form of entertainment for the American consumer to some extent. Now that they are in a pattern of shopping, I think it is difficult for them to stop. It continues to remain

continues to grow. The entrance of Whole Foods to the New England region is very exciting. I think it is going to create a competitive reaction, which will benefit the consumer. Anyone who has a Whole Foods as part of their center has a very good thing going now.

Karp: I told my son when he entered the business that I was in a one-generation business. I was probably right at the time, because there aren't many development opportunities for regional malls. With the business that he is starting to get into — building Target stores, Lowe's stores and Home Depots in suburban areas — I told him that he is probably in a one-generation business, too. When you look at the big box business, you are down to two stores in every category. Once they are in the market and each individual marketplace, there is no way more stores will come in. You have to reinvent yourself into something else. Now, we're all calling it lifestyle. Now that is becoming a mix of box and lifestyle. Our average project took us over 5 years to do when we were developing regional malls. Crystal Mall in Waterford, Connecticut, took us 13 years. We had a bar mitzvah instead of an opening. You have to have patience. I look at 2007 as just another year. We will do everything that we planned and somehow move on to 2008.

Sheehan: Our data is showing that over the last year the Boston market has netted about 2 million square feet of new inventory. If you look at the total spectrum of retail, for every 2 million square feet that is getting built, there is probably 2 million at the other end that shouldn't even be there. Even with the fact that this isn't a strong population-growth market, we are still getting good expenditure growth out of income growth. If income is going up 3 percent to 4 percent per year and we are keeping inflation in check, we are still getting expenditure growth in the market. There is definitely going to be more redevelopment opportunity in this market. We saw an old Raytheon building in Burlington get razed. A lifestyle center opened on the site that is doing very well. It is those kind of infill projects that are going to happen. **SCB**