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Hall Gillespie pays $27.5M for 3-building Lucent site

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The investment team of Hall Gillespie LLC has bought Lucent Technologies Inc.'s sprawling complex in Marlborough for $27.5 million, betting on the long-term desirability of the suburban market.

Hall Gillespie is hoping to replicate the success it had with 300 Baker Ave. in Concord. Hall Gillespie bought the 408,000-square-foot GenRad Corp. building in 1996 for $6.25 million and sold the office and R&D space three years later for $47.75 million, more than seven times the purchase price.

Hall Gillespie paid $55 a square foot for Lucent's 55 Fairbanks Blvd., or about 35 percent of replacement cost, said Ian Gillespie, a partner in the venture with Denison Hall.

The three-building, 106-acre property includes an additional 500,000 square feet of developable land that's already permitted. Hall Gillespie expects to invest $40 million, which will cover, among other things, building renovations and a new road to the site.

Lucent had recently renovated about 100,000 square feet of space. The rest of the property, which was built in the 1980s, needs to be renovated. Gillespie said he expects the building to lease in the mid-teens, triple net, which means the tenant pays for taxes, maintenance and utilities.

While the demand for suburban property is currently very soft, Gillespie said he expects that to change relatively soon. The deal's financing allows the property to go without any leasing the first year, 200,000 square feet the second year and 300,000 square feet the third year.

"We can carry this five years without blinking an eye," Gillespie said. "We have $50 million in capital in this thing, and that's the key. It's not a matter of if, but of when."

Kevin Hanna, the senior director at Cushman & Wakefield of Massachusetts Inc. who is marketing the property, said a lease for 20,000 square feet should be signed within a couple of weeks.

Hanna said there's been interest from several tenants with requirements of between 100,000 square feet and 150,000 square feet.

"Our hope is always to get it leased as quickly as possible," Hanna said, but Hall Gillespie is taking a deliberate approach so that it doesn't concede too much or lease to the wrong tenants before the market improves.

Gillespie said this deal was designed as a double, not a home run, but said there are several similarities to the Concord deal.

"It's a bellwether deal for the market," he said. "I don't know if it'll be another Concord. That would be a dream world."

Lisa Campoli, a senior managing director in Insignia/ESG Inc.'s Boston office, said there is a lot of interest in suburban properties like Lucent's, but not a lot of deals are getting done because of the risk involved.

"The fact that they got that done was notable," she said. "There's a lot of capital sniffing around for a lot of deals. There are a lot of people saying that those are the kinds of deals they want, but not a lot of them are pulling the trigger."

The value of the undeveloped land is the key variable in determining whether the sale price was a good one, Campoli said. "Whether or not it's a good price depends on whether or not you think there's a market for additional buildout.".

A stifling vacancy rate and gloomy prospects for the suburban market have scared investors away from suburban properties. The Interstate 495 office market is hindered by a 25 percent vacancy rate, but much of that space is being paid for, Hanna noted, with a relatively mild 12.7 percent vacancy rate for direct space.

Gillespie said he expects the Metrowest market to be one of the first to turn around.

"The Boston suburbs are one of the finest markets in the world," he said. "The future of real estate is convenience to the work force. The 100,000-square-foot suburban office building is as good a commodity as one can find."