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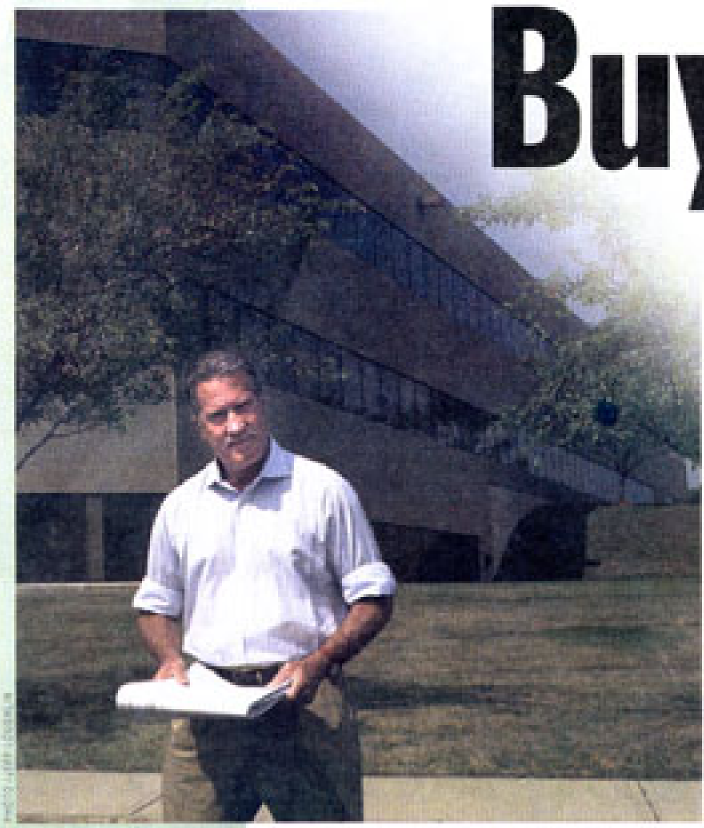

Buy and hold:

Investor duo stakes former Lucent facility in Marlboro

By Kim Ciottone

Banking on better times to come, commercial property owners Ian Gillespie and Denison Hall have purchased the primarily vacant three-building complex on Fairbanks Boulevard in Marlboro. Gillespie, of Concord-based Gillespie & Co., and Hall, of Boston-based Hall Properties Inc. in Boston, are managing members of Hall Gillespie LLC, the new owner of 55-65-75 Fairbanks, for which the partnership paid $27.5 million. "We got an outstanding product at a fairly low price," says Gillespie.

The complex is now almost empty, with the exception of a small portion occupied by Distributed Network Control Platform, a Lucent division which the owners say will remain as a tenant. The three buildings, which Gillespie says, "have outstanding existing corporate infrastructure" were originally built in the mid-to-late 1980s as headquarters for Stratus Computer.

"For us to have bought this thing, we needed to have a very large commitment of [cash on hand] so we could hold the property - vacant or partially vacant - for several years and still be fine within the structure of the deal," says Gillespie. "We've got patient money, so

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Ian Gillespie, principal of Concord-based Gillespie & Co., poses in front of a small part of the 500,000 square-foot Marlboro complex that he and partner Dennison Hall now have to fill up.

Investor duo stakes former Lucent facility in Marlboro *continued from cover*

we've got plenty of time," Hall says, noting he expects to fill the property within a three-year period - as happened in the last tech turnaround - but that the partners could wait as long as five years.

Gillespie and Hall say they purchased the property at $55 per square foot. That's con-sidered to be a deal in today's market, where leased buildings sell on average between $150 -$200 per square foot. "We have the opportunity to provide very good, low cost space to the market," says Gillespie. The 106-acre parcel also provides the ability for the owners to add another 500,000 square feet to the complex, though they don't plan to do that soon.

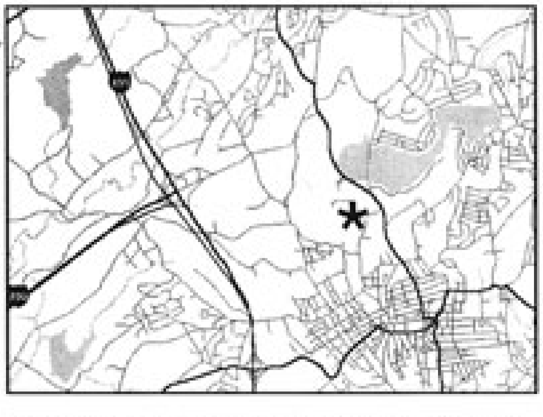
They will, however, be investing about $50 million in renovations to the site, Hall says, with one of the primary costs being the building of a new, $2 million entry road to provide easier access from I-495. The complex has an existing conference center and a cafeteria big enough to accommodate occupants of all three build-ings. Additional work, about $1 million worth, will include the remake of the lobby areas as well as an upgrade of the site's overall esthetics. The remaining $47 million would be spent on renovations tailored to incoming tenants.

The partners will focus on the regional technology and finance firms as prospective tenants, Gillespie says, but also on Boston-area companies seeking redundant facilities in the suburbs to defend against business interruption in a post-September 11 environment. Other factors contributing to the push west, he says, include historic differences like cost of living, traffic, and corporate parking expenses, to name a few factors.

Gillespie says the Marlboro purchase is almost like *déjà vu*. He's a former owner of the 400,000-square-foot facility at 300 Baker Ave. in Concord, which he sold to MetLife for $47.75 million three years ago. The Marlboro site has many similarities to the Concord site, he says, including the fact that the market "was considered to be sort of in the tank," at the time it was bought. "We leased that as fast as we could turn the space over," he says. A former General Radio plant, the Concord complex has since been redone and is now home to several technology companies, including Avaya, a Lucent spin-off.

Gillespie bought the Baker Ave. complex for $6.25 million in 1999 and put millions into its renovation, though he declines to be specific. But the profit from the sale - though sizeable - was distributed among many financial partners who were also part of the project, he says.

Buying empty property and waiting for the market to come back isn't for everyone, warns David Begelfer, CEO for the Needham-based Mass. Chapter of the National Association of Industrial and Office Properties, or NAIOP. Buyers of vacant, or soon-to-be-vacant property must factor into their acquisition price the cost of holding the property vacant, he says. Only purchasers who are able to carry mostly-vacant properties for two or more years will be in a position to take advantage of them. Once the market returns, he says, "those purchasers will be showing a very high return on their investment." If those purchasers acquire properties at a price lower than their replacement cost, with well-located properties, he says, "in hindsight, I think people will look back and say it was a steal."



Hall and Gillespie's new property (star) is located close to I-495 in Marlboro.

Small-business growth, a long-time Massachusetts mainstay, will likely be the answer to filling the current pool of vacancies, Begelfer adds. Biotech, which has been talked up as a potential space-filler, is limited in the type of space it can occupy. But there's always an emerging business with the potential for growth and expansion, he says. Commercial property investors must walk the line between the risks associated with newer companies, and the lack of demand among larger companies, he says.

What's been termed "shadow space" or space that companies are leasing but not using today, Begelfer says, is an issue for the companies that rented the space in the I-495/ Metrowest area, but aren't using it. The problem is now rampant in the high-growth areas of I-495 and Boston, a holdover from the mid-to-late 1990s boom, when high-tech businesses had to commit to space earlier rather than later in anticipation of future growth. Today, many are still paying for that empty space. Vacancies that are supported by paying businesses, Begelfer says, represent about 50 percent of the total commercial space currently available in the wider Boston/Metrowest area.

If the economy improves within the next six months to a year, Begelfer says, some of the existing shadow space will come back into use by those very businesses that leased it initially. He says NAIOP sees a real estate turnaround within the next 12-18 months. "We're going to be looking at about six to12 months for the economy to firm up a bit and on the real estate side, probably about another six months after that to stabilize the rental market," he says. If the existing shadow space remains paid for by the tenants up and through that time "the real estate industry should come through this relatively well," he says.

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