

Meritage Puts 202,000-SF Property on Market

By [Joe Clements](#)



18 Tremont St.

BOSTON—Barely two years after purchasing a 202,000-sf office building in the city's core business district, Meritage Properties is putting 18 Tremont St. up for sale. Meritage paid \$37.5 million for the 12-story building, but observers anticipate the New York City-based real estate firm will reap far more for the asset now that city rents are again approaching record levels. The capital markets group at Jones Lang LaSalle's Boston office has been hired as brokers.

While incongruous to the long-term strategy laid out by Meritage founder Andrew Nathan upon acquiring 18 Tremont St. in May 2005, observers say the flip makes sense as investors scramble to grab a piece of Boston's mini-boom. Sale prices of available buildings are nearly always being met, and often exceeded. Even at 92 years old and considered a Class B property, 18 Tremont St. is expected to garner aggressive bidding. A similar asset a few blocks away, 45 Milk St., just went under agreement to a client of Anglo Irish Bank for about \$34 million, or an astounding \$478 per sf. Being brokered by Cushman & Wakefield, the sale of that 71,000-sf, 114-year-old building was reported last week by [GlobeSt.com](#).

In acknowledging to [GlobeSt.com](#) that 18 Tremont St. is on the block, Nathan concurs that the harvest is ahead of his firm's usual hold period of three to seven years. Working with Paradigm Properties as building manager and JLL's leasing group, Meritage was able to employ its hands-on approach and turnaround program efficiently enough to move the process along quicker, explains Nathan, a fortuitous situation given the surge of capital available.

"It was really a combination of us feeling we had successfully executed our plan and the recovery of the Boston office market," he says. "We just felt the timing was right."

Besides the surging Boston economy, 18 Tremont St.'s irreplaceable location and physical improvements incorporated by Meritage and the previous ownership are reasons for the expected price appreciation. Some \$10 million in upgrades have been made to the façade, common areas and mechanical systems, while the surrounding district has seen investment from both the public sector and other Tremont Street landlords.

As part of the leasing campaign, 18 Tremont St. has secured a number of business and professional services firms under Meritage's stewardship. Ironically, however, one lure for suitors could be from the 13% vacancy and expiration of about one-third of the rental roll scheduled through the end of the decade. Indicating just how radically Boston's situation has changed in mere months, investment specialists say vacancy has become a coveted element for buyers hungry for returns.

In marketing materials, the average in-place rent for 18 Tremont St. was estimated at \$27.77 per sf, compared to a Boston average of \$30 to \$32 per sf for upper echelon Class B space. Nathan declined to discuss financial specifics, and would not hazard how much 18 Tremont St. will sell for, but he agreed the winner will secure an opportunity for income growth and a building that has resolved earlier shortcomings.

The Massachusetts economy offers further optimism. "I don't know anyone who doesn't see a bright future for Boston," says Nathan, whose firm was among the first to buy into the city after the recession of the early 1990s. Given the skeptics who questioned Meritage's investment when the area was still struggling, Nathan agrees that his firm is now being seen as "ahead of the curve." Having helped Tishman Speyer make its foray into Boston in the 1990s, Nathan's belief in the market was one catalyst, further aided by hard research from JLL to support those instincts. Meritage also studied the building carefully before pursuing it, he says, a pattern used when considering all real estate.

Trading 18 Tremont St. is not a sign that Meritage feels the market has peaked, stresses Nathan, indicating that he is actively eyeing other local opportunities, especially Boston and Cambridge. The firm also owns suburban office parks in Andover and Southborough, and recently made a huge splash in Providence by acquiring a **tower for** \$66 million.

Several JLL Capital Markets Group members now handling 18 Tremont St. were involved in the sale to Meritage, including Cappy Daume, Scott Jamieson and Michael Smith, while other brokers are Gail McDonough and Brandon Dickason. The prior experience, coupled with the leasing success, were keys in retaining the JLL team, says Nathan. "They did an outstanding job before, and we expect they will again."