

Office Sales Headed For A Solid 2005

By KENNETH R. GOSSELIN
Courant Staff Writer

June 19 2005

As home buying in Greater Hartford soared in the past four years, purchases of area office buildings have been quietly gaining momentum.

Office sales in 2005 are poised to be the strongest in five years, both in the number of purchases and how much is paid per square foot.

So far, at least five major deals have been signed, including the newly announced sale of Goodwin Square in downtown Hartford. And expectations are ratcheting up for 2005.

Six months ago, commercial real estate services firm CB Richard Ellis-N.E. predicted that at least 14 prime office properties in Greater Hartford would be sold this year.

"I think we're going to blow that away," said John M. McCormick, executive vice president at CB Richard Ellis' Hartford office.

The Hartford area's office market struggled to recover from the real estate collapse of the late 1980s, and then the fallout from the 9/11 attacks. Now, both in downtown Hartford and in the suburbs, there is a healthy rebound underway in the number of sales and the prices being paid per square foot.

The pool of potential investors also is growing to include more regional and national buyers. The interest is significant because it indicates growing confidence in Greater Hartford's future - now anchored by state-backed redevelopment in downtown Hartford.

The area's office building prices, though rising, are still attractive to investors because they are cheap, compared with New York City, Boston or even Fairfield County. In addition, borrowing costs remain low and real estate is still considered a good investment, even more than a sluggish stock market.

Much of the attention is coming from smaller private investors who can't necessarily pick off a trophy asset in a larger metropolitan area, but can get into the thick of the hunt in a smaller city such as Hartford.

The turnaround also represents a big opportunity for building owners to cash in on their earlier investments. New Boston Fund, a major property owner in Greater Hartford, sold a half-dozen sites in and around Hartford last year, including the 28-story 280 Trumbull Street tower in downtown Hartford.

The sale of the 673,000-square-foot 280 Trumbull dramatically reduced the percentage of New Boston's holdings in Hartford's central business district as part of its Greater Hartford portfolio. The percentage fell from 38 percent to just 15 percent. But the fund said it continues to pursue purchases in the city.

Although Greater Hartford's strengthening office market means opportunity, risks for investors remain.

Vacancies and rental rates have stabilized in Hartford's downtown and the surrounding suburbs. But the overall market has a long history of volatile employment growth. New jobs not only fill office space, but also lift the value of office space because leases - particularly longer-term ones - guarantee that money will be coming in.

One potential shock could come if MetLife Inc.'s planned acquisition of Hartford-based Travelers Life & Annuity is approved. MetLife has promised to maintain 1,310 jobs in Hartford for a year after the expected close of the deal in early July. Travelers now has 1,800 employees downtown, and officials worry about the long-term impact on the area.

But Grunberg Realty, the Manhattan firm that purchased 280 Trumbull last year for \$65 million, says it remains bullish about the prospects for Hartford and the surrounding area.



MICHAEL GRUNBERG, a principal in Grunberg Realty, has purchased 280 Trumbull Street in Hartford. It is one of the city's largest office buildings, and it is shown behind him in the center of the photo. Recent sales in the Hartford area indicate a strong commercial real estate market.

Michael Grunberg, a principal in the firm, said he is particularly encouraged by development in downtown Hartford, including the recent opening of the Connecticut Convention Center.

"There is real movement," Grunberg said, "and not just hype."

Cranes In The Air

Greater Hartford's office market emerged slowly from the real estate collapse of the late 1980s, which took a heavy toll on both office and housing market values. Throughout much of the 1990s, sales of office buildings in downtown Hartford and the suburbs were sluggish as financial services mergers and corporate downsizings cut deeply into area employment.

By 2000, office sales began picking up, with some particularly notable purchases in downtown Hartford, including skyscraper CityPlace I. Declining vacancies in the suburbs led to new construction.

But the bursting of the tech bubble, the stock market plunge and the resulting recession combined to cool the office sales market again. Vacancies both downtown and in the suburbs rose, while rental rates slid.

Last year, there was a marked resurgence in sales, as economic prospects brightened and downtown Hartford development projects moved forward. Vacancies and rental rates also stabilized.

"Hartford is starting to get noticed," said Chris Ostop, leasing director at commercial broker Jones Lang LaSalle in Hartford. "There are cranes in the air."

In 2004, the number of sales of Class A office buildings - those with the most modern floor plans and amenities - rose to 17, according to CB Richard Ellis. That was nearly double the number in 2003, and it beat the forecast of just 10 sales.

The average sales price per square foot rose to \$84, from \$80 in 2003.

CB Richard Ellis has made more bullish predictions for 2005. In addition to at least 14 Class A office sales, the average price per square foot is expected to reach \$102, the broker has forecast.

The announced sale of Goodwin Square and its 330,000 square feet of office space already appears to be testing that upper limit. Neither buyer Northland Investment Corp. nor broker CB Richard Ellis would disclose a per-square-foot price on the \$41 million sale, which is expected to close this summer.

They said the value of Goodwin's office space was difficult to calculate because the

complex also includes a luxury hotel. But industry sources said the sales price pegs the value of Goodwin's office space at between \$90 and \$100 a square foot.

And although average sales prices are rising in Greater Hartford, they remain lower than in other metropolitan areas across the country.

Consider: In Boston, average sales prices in the past 12 months of all buildings valued at \$5 million or more was \$222 a square foot, according to Real Capital Analytics, which tracks commercial real estate trends across the country.

The average in Manhattan was even higher, at \$357 a square foot.

Greater Hartford's average sales price also is being outpaced elsewhere in Connecticut. In Stamford - influenced heavily by the New York City office market - the average per square foot is \$213.

By contrast, the best office properties in Greater Hartford are going for far less, and that is stoking investor interest.

"There is a lot of capital out there to invest," said Jonathan K. Putnam, a commercial broker at Cushman & Wakefield of Connecticut Inc. in Hartford. "And some investors have been priced out of other markets."

For those who took a chance on Greater Hartford when the office market was still soft in the 1990s, the current interest from buyers could pay off in a big way.

Greater Hartford's largest Class A office transaction last year was the sale of 280 Trumbull in August. Prudential Financial is the largest tenant in the building.

The purchase shows the rising prices for office space in the city since the late 1990s.

In 1997, Cambridge Realty Partners paid \$20.9 million, or \$31 a square foot, for the office tower, across from the Hilton Hartford. Four years later, New Boston Fund paid \$45.5 million, or \$68 a square foot. Last August, Grunberg Realty invested \$65 million, or \$98 a square foot.

"There's an attempt to get in on the ground floor before prices start appreciating," said Bill Fenn, a New Boston executive in Hartford.

Attracting An Outsider

Prices are what attracted Michael Grunberg to Hartford two years ago.

A principal in a 47-year old, family-run real estate firm in Manhattan, Grunberg got his first look at Hartford not by visiting, but by comparing sales prices on the Internet.

He liked what he saw, and paid \$5 million for an office building on Woodland Street in Hartford that houses doctors' offices. The building is outside downtown, near St. Francis Hospital and Medical Center.

"Hartford was on my radar screen," Grunberg said.

But that didn't mean he immediately began looking for another purchase.

"This wasn't one day I woke up and said, 'Oh, Hartford,'" Grunberg said. "I came to visit Hartford on many occasions until I felt comfortable that I could make such a large purchase as 280 Trumbull."

Grunberg was attracted by the development in the city, as well as the cultural attractions and the ease of getting around downtown. As an outsider, Grunberg said he could see the positives in a way that others who had long been in the area could not.

"Most of the natives don't see it because they are in it," Grunberg said. "They can't perceive the movement because they've been burned in the past by a lot of hype."

Grunberg said his comfort with Hartford is growing. He bid on Goodwin Square, but was knocked out of the running in the final rounds.

The city and surrounding area need to be more competitive in attracting jobs, particularly in financial services, to help boost employment, so key to the success of the office market, he said.

"But," he said, "I believe we are on the verge of a renaissance."

Copyright 2005, [Hartford Courant](#)
