



2013 Annual Awards Entry Form
(Complete one for each entry.)

Entry Name Lease Negotiation Success Story

HFA MassHousing

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Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013**.

Use this header on the upper right corner of each page.

HFA _____

Entry Name _____

Communications	Homeownership	Legislative Advocacy	Management Innovation
<input type="checkbox"/> Annual Report <input type="checkbox"/> Promotional Materials and Newsletters <input type="checkbox"/> Creative Media	<input type="checkbox"/> Empowering New Buyers <input type="checkbox"/> Home Improvement and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Federal Advocacy <input type="checkbox"/> State Advocacy	<input type="checkbox"/> Financial <input type="checkbox"/> Human Resources <input checked="" type="checkbox"/> Operations <input type="checkbox"/> Technology
Rental Housing	Special Needs Housing	Special Achievement	Are you providing visual aids?
<input type="checkbox"/> Multifamily Management <input type="checkbox"/> Preservation and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Combating Homelessness <input type="checkbox"/> Housing for Persons with Special Needs	<input type="checkbox"/> Special Achievement	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO

Management Innovation – Operations
MassHousing
Lease Negotiation Success Story

Like any housing finance agency, MassHousing's mission to serve low and moderate income homebuyers and renters drives everything the Agency does. The Agency prides itself on its innovation and its efforts to reinvent itself when the opportunity arises. MassHousing also continually seeks opportunities for cost savings and the reallocation of those savings back into the Agency's mission-driven goals.

With the date looming on the horizon when MassHousing would need to renegotiate its lease for office space, staff worked hard to capitalize on the opportunity to generate cost savings for the Agency.

In 1995, under a prior leadership team at MassHousing, the Agency moved to its current location at One Beacon Street in downtown Boston. The lease that was signed at that time secured office space on four upper floors of this 34-story building. One Beacon Street is located just one block from the State House. It is within walking distance of Boston's government hubs – federal government at the Tip O'Neill and JFK Office Buildings, state government buildings on Beacon Hill, and across the street at Boston's City Hall. It is also within walking distance of Boston's financial district, downtown retail area and recreational areas on the Boston Common and Charles River. It is accessible to major subway lines, bus lines and commuter rail stations allowing easy commuting access for employees, customers and business clients.

MassHousing's present lease of 120,000 square feet was up for renewal in March of 2015. A subcommittee of MassHousing's Board of Directors along with a small team of key agency staff including: the Executive Director, Deputy Director and Managing Director of Administration developed a calculated strategy to open up negotiations in 2012 in order to assess the Agency's options within as large a time frame as possible.

Boston is obviously an extraordinarily high cost real estate market. As noted above, however, there were both sound and compelling reasons to try to keep MassHousing in the City of Boston proper. Just over 66% of MassHousing's more than 350 employees utilize public transportation to commute to work. This is a terrific number – and one that the Agency wanted to continue to support by its decision on location. Additionally, there are still a number of borrowers who choose to make their mortgage payment at the Agency's Boston office.

MassHousing's current lease expenses are in excess of \$7 million annually, or about \$59 per square foot per year. As a comparison, the annual total cost of health care for all employees and retirees (approximately 450 people) is about \$3.5 million. This demonstrates clearly that office space is a major cost driver. At the same time, however, an entity of MassHousing's size only has the opportunity to make a cost savings decision of this kind periodically, and in this case, every ten years. Because the timing was ripe for change, the goal was to reduce costs and house MassHousing in an environment that was still accessible and reasonable for staff, clients and business partners, and perhaps capture an opportunity to create more energy efficiencies while also achieving significant cost savings.

In order to evaluate its potential options most effectively, MassHousing selected a commercial real estate advisor through a competitive bidding process. The advisor then identified almost 30 different locations offering 100,000 square feet of space that were currently available or would become available within the time constraints of the lease expiration. Of these 30 potential options, about a dozen sites made it to a list of finalists to be toured and considered in greater detail. While cost alone was not the driving factor in this decision-making process – it was certainly the primary goal.

Given this goal, it seemed clear to the team working on this project, that staying at One Beacon Street would likely not be a feasible option. Its standing as “Class A” office space in a very desirable part of the city seemed to preclude it from being a price competitive option – but at that same time – MassHousing’s team learned during its investigation of other properties that there was an important factor that would influence this issue. This was the fact that the entire One Beacon Street property was on the market to be sold.

MassHousing is the largest tenant at One Beacon Street and over the last 18 years, the Agency had established itself as a desirable tenant. It is rated on Wall Street and has its own issuer credit rating. All of these factors made the Agency a valuable commodity to the landlord and its investors.

The owners of One Beacon Street, Beacon Capital, learned that the Agency was looking aggressively at other lease alternatives. Beacon Capital also learned that MassHousing was pursuing options on the lower floors of buildings all around Boston in order to take advantage of the large cost savings that renting lower floors represents.

Because MassHousing hadn’t considered One Beacon Street to be a viable option, the chance of staying was seen as remote at best. Interestingly, this strategy of playing “hard to get” actually worked in the Agency’s favor. MassHousing’s Executive Director was pursued directly by the CEO of Beacon Capital. He spoke directly and explained that Beacon Capital would be very interested in putting a deal together with MassHousing to entice the Agency to remain at One Beacon Street. If MassHousing were willing to move down to some of the lower floors of the building and commit to a long-term lease – this would make the building overall much more marketable because lower floors are generally harder to rent – and having a long term commitment adds stability to a volatile real estate market transaction.

Given this opening, MassHousing negotiated hard to get the most desirable lease terms possible both in the long term costs and also in the associated and more immediate “perks” that would come with the Agency’s decision to remain in the building. It became clear that the building owner believed that MassHousing would “walk” if the deal wasn’t exactly right – and this was a valuable negotiating tool that worked in the Agency’s favor.

Given that MassHousing was willing to consider (and in fact was pursuing) low floor options in downtown buildings, Beacon Capital made an offer to put together approximately 93,000 square feet on parts of floors three, four and five and all of floors six and seven. After serious negotiation, Beacon Capital’s offer came in at a cost of \$41 per square foot per year in the initial years, with modest stepped increases over a 15 year term. This represents an annual cost of approximately \$3.5 million versus the \$7 million annually that was currently being paid. As an additional incentive, if the Agency was willing to move on the landlord’s timeline, in advance of the lease expiration date of March 2015, the low rent, at

the reduced square footage, could be realized as soon as the lease was signed and before any portion of the move had even occurred.

Unfortunately, MassHousing would be utilizing every possible square foot of available space in the low rise portion of the building if it accepted Beacon's offer and this amount of space did not meet the Agency's requirements. As an added incentive, the management at One Beacon then offered more than 3,100 square feet of space on the concourse level of the building for MassHousing to use as ancillary space for some of its "back-office" support facilities. At this level, all of the hand deliveries, mail, in- and out-going packages, and the receiving area will be located. There will be a designated room for public records requests for the press or the public to look at documents. This will also be an area for "warm" storage – a high density filing and storage area for documents that are not ready for cold storage, but are not needed in the immediate office area. Additionally, the showers and locker room facilities as well as the mother's room for nursing mothers will be located in this area. This space was also a tremendous offer financially because it would be rented to MassHousing at a rent beginning at \$20 per square foot per year, and rising to \$25 per square foot per year in 2025.

MassHousing could not pass on this offer as it proved more competitive than any other proposal at that time. As such, with Board approval, MassHousing accepted Beacon Capital's terms. The lease was signed on April 2nd and MassHousing was charged \$41 per square foot beginning the month of April 2013. The new rate was realized despite the Agency's remaining in the current space through November. With the deal that has been signed, MassHousing also has the right to expand on any floor in its elevator bank over time if a floor becomes available and MassHousing determines that it has needs for additional space. Typically, when there are expansion rights in commercial leases, the prevailing market rates are paid, but MassHousing has also negotiated to rent at the rate it is currently paying. This will represent another huge cost savings to the Agency if it needs more space over time.

Another incentive for the deal means that MassHousing has an \$8 million budget for the "build-out" of the new office space to be paid for by Beacon Capital. The Agency is very pleased that this means that the new space will include some of the newest technologies and green upgrades available as well as energy saving efforts such as glass walls in order to capture more natural light and reduce energy costs.

It is clear that staying at One Beacon Street, moving low and signing up when it did, offered MassHousing immediate savings – \$7 million between now and when the lease expires in November 2015 alone! On an average basis going forward, the Agency will be spending \$4 million each year between now and 2030 versus \$7 million which is being paid annually now.

In fact, even by 2030 the rent will STILL be \$11 less per square foot that what the Agency was paying in 2013. This is remarkable lease negotiation – and a remarkable outcome overall for the Agency. Over the life of the lease, MassHousing expects savings to total close to \$37 million! Most importantly, this is money that MassHousing can put back into programs and services – money that MassHousing can use to help the people whom the Agency is committed to serve. Low and moderate income working families in Massachusetts have gained a tremendous benefit because of some careful negotiations by staff at MassHousing. These working families are the real winners – and that's exactly the way that MassHousing likes it.