

A FIVE-YEAR BUSINESS PLAN
FOR
THE BOSTON MARINER COMPANY, INC.

by

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ABSTRACT

Time was spent understanding the Boston Mariner Company and its proposed mixed-use waterfront development on Pier 4 in Boston. The project is over 1.6 million square feet and is comprised of office space, a hotel, condominiums, and retail space. An adjacent project which is twice as large, the Fan Piers, would have a similar mix of uses and the two developments would cooperate in the construction and operation of a marina.

An analysis was made of the three most important markets for the project, the office, hotel, and condominium markets, and an analysis was made of Boston Mariner's capabilities. The project is considered feasible, but Boston Mariner faces four significant risks. Boston Mariner is a new development company and therefore lacks experience, the project is very large, the site is currently difficult to reach because of poor transportation facilities, and the site is essentially on the frontier.

Several recommendations were made to address the risks and improve the overall success of the project. The most significant were to increase the size of Boston Mariner, to find a joint venture partner to co-develop the project, and to rethink the current project plan, specifically considering the elimination of the hotel and a postponement of the construction start until the transportation problems appeared solvable.

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Introduction

The Boston Mariner Company is a real estate development firm which is wholly-owned by restaurateurs Anthony Athanas and his four sons. The firm's primary mission has been the development of a large parcel of land that is adjacent to one of their restaurants.

The purpose of this thesis is to provide a plan that addresses Boston Mariner's key business issues over the next five years. By the end of that period, it is expected that the first phase of the development will have proceeded through approvals and construction and will be a full year into sales and leasing.

Since Boston Mariner has never developed a project before, this five-year time frame which takes it to the stabilization period of its first development will probably be the most critical one in its history. Therefore, that time range was chosen for this thesis.

The structure of the thesis parallels the process that might be used internally within a company that was going through a brainstorming process to develop a business plan. The thesis has a total of six chapters and the first two deal with information that might be common knowledge within the company.

Chapter One provides a history of Boston Mariner including the events that led to its formation and the firm's accomplishments to date. Chapter Two describes the current

real estate climate that Boston Mariner faces and the chapter also offers some forecasts of how this environment may change over the next five years.

Chapter Three involves some "soul-searching" that ongoing companies often do not perform frequently enough. The chapter describes Boston Mariner's mission and analyzes its appropriateness given the company's strengths and weaknesses. Chapters Four, Five, and Six present a set of goals, strategies, and actions for Boston Mariner.

Finally, since Boston Mariner is privately held, specific financial information has not been provided for purposes of confidentiality. However, the actions proposed by this thesis are based on consideration of the actual financial environment that Boston Mariner will be operating within.

Chapter I

History of Boston Mariner

Pre-Real Estate Development

Boston Mariner was founded in 1985, however, its origins can realistically be traced back to the start of Anthony Athanas's restaurant career in Massachusetts.

Athanas opened his first restaurant in 1938 in Lynn. He moved its location later on to elsewhere within Lynn and throughout the 1940's and into the 1950's this location was very successful. In the interim he also developed two other restaurants in Swampscott.

However, in the 1950's Lynn's fortunes began to plummet, in part because of General Electric's decision to substantially curtail their employment in the city. Faced with this degenerating situation, Athanas felt that continued growth of his restaurant business would require that he find an additional site.

He sought a location along Boston's waterfront because he had been very impressed with the ambiance of waterfront life that he had seen on trips to the Netherlands and Denmark. Unfortunately, obtaining the right site was a difficult task: some locations that would have been ideal were not available, and others that were available were not suitable, usually because of the neighboring uses.

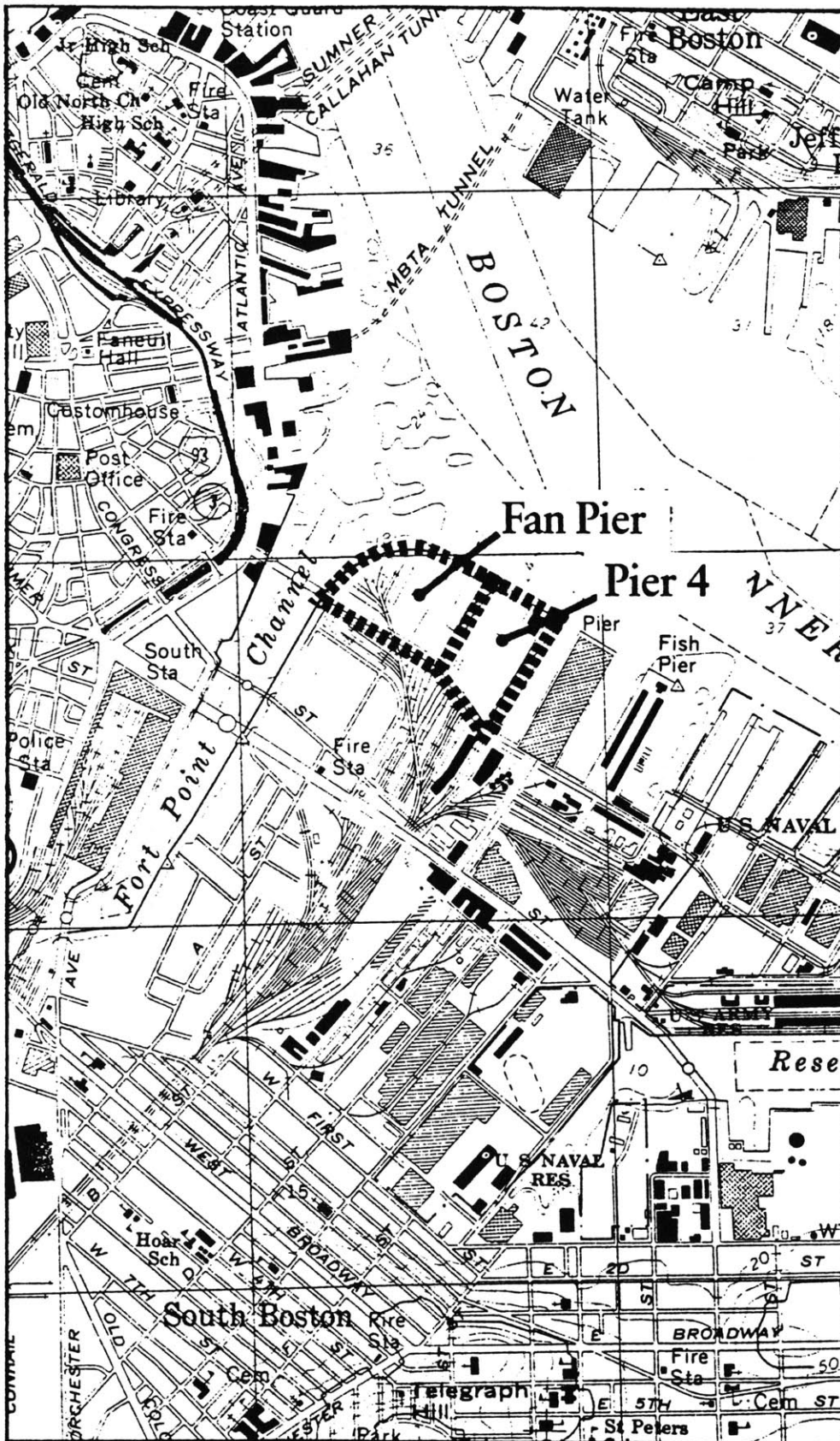
In the late 1950's a predominantly industrialized site across the Fort Point Channel known as the Fan Piers and Pier

4 was offered for auction by the City of Boston (see illustration on next page). This site is comprised of approximately 25 acres of land above water and 10 acres of "land" below water which in theory could be filled in, withstanding various coastal and tidelands regulations.

However, Athanas was not the winning bidder, but within a few months the winner had run into financial difficulties and he sold the Fan Pier/Pier 4 site piecemeal to several purchasers. This provided Athanas with an opportunity in 1960 to acquire a 3 acre portion of the site which was sufficient to build the restaurant known as Anthony's Pier 4.

The restaurant was a success from the day that it opened in 1963 to the surprise of many who felt that the location was too far removed from Boston's downtown area. However, Athanas remained steadfast in his conviction that the overall area would eventually become very desirable as a place to live and work so he continued to acquire as much land as he could. Eventually he managed to reassemble the entire Fan Pier/Pier 4 site by purchasing land from the various individuals who controlled the subparcels. As could be expected, the cost per acre of the acquisitions rose substantially with time.

After obtaining the property, there were still additional outlays that Athanas was forced to make. Along the water's edge the decks, piles and riprap were deteriorating and required expensive maintenance. In addition, substantial amounts of fill were required to make the land useable.



Eventually, a commercial parking operation was set up to help defray the costs of rising real estate taxes.

Beginning Real Estate Development

For a long time Athanas had felt that real estate could be an excellent way to ensure that his four sons and their eventual heirs would be provided with a sound financial future. Secondly, real estate also offered the opportunity to shelter some of the earnings that were being generated by his restaurants.

In the mid 1970's Athanas perceived that the time was ripe to pursue development of the piers (he had applied for and received permission to build a 15-story hotel in 1966, but he ultimately let the permits expire since he felt that the market was not yet ready).

Athanas sensed that one of the keys to making the site successful would be to counter the feeling of isolation that existed on that side of the Fort Point Channel. He believed that this could be accomplished in part by having a major hotel on the site. In 1977 he met with A. N. Pritzker, the patriarch of the Chicago-based Hyatt Hotel chain and this eventually led to Hyatt being granted a ground lease by Athanas for the Fan Pier portion of the site in 1980.

In 1982, a single mixed-use development plan was submitted jointly for the Fan Pier and Pier 4 portions of the site by HBC Associates (a partnership of Hyatt and Boston-based Carpenter & Company) and by Athanas, respectively.

This plan featured a series of tall buildings along the

water's edge and also required some filling of the land that was underwater. However, this was not well-received by, among others, James Hoyte, Secretary of the Executive Office of Environmental Affairs (Massachusetts's equivalent of the Environmental Protection Agency).

The most serious complaints were all concerned with the development's relationship with the water. It was felt that a ring of tall buildings along the edge would restrict the public's access to the water. In addition, it was felt that there was nothing in the plan that took advantage of the site being on the waterfront. Finally, the state's policy was to discourage any further filling of land that was currently underwater.

For the entire site, Hoyte requested an environmental impact report which was the most comprehensive in the history of Massachusetts's environmental protection process and the would-be developers went back to the drawing board.

They each hired separate architects and in early 1985 a pair of development proposals were submitted. These were better received although there were still a number of concerns about the Pier 4 design. The primary ones concerned the continued need for filling of underwater land, a poor relationship between the buildings and the open space, and no provisions for water-related activities.

Up to this point, Athanas's acquisition of the land, negotiation of ground leases, and proposed development plans had been accomplished with limited aid from a real estate

brokerage firm, a law firm, a succession of approximately half-a-dozen architectural firms, and a family advisor who did not have specific real estate expertise.

Meanwhile, he was still running his restaurant business which by now had grown to five restaurants. Although his sons provided substantial assistance in the restaurant business, Athanas and his sons felt that they should hire a real estate consultant to help in the Pier 4 development.

Forming Boston Mariner

After inquiring at M.I.T.'s Center for Real Estate Development, Athanas and a graduate-to-be, Ellen Watts, began to explore ways they could work together. Watts suggested a development entity that would be independent of the restaurant business since she was concerned that it should have the proper professional profile.

Athanas and his sons initially resisted this suggestion since they were afraid that they might lose the ability to shelter the restaurant's income and that they might also lose control of the Pier 4 site. (If the family had not been concerned with control from the outset, their easiest alternative would have been to bring in an outside developer for Pier 4. One area where the Athanases did give up some control was by issuing the ground lease and now Athanas says that if he had it to do over again he would never have granted it.)

After continued negotiations which addressed the Athanases' concerns as well as some of Watts's own, the following

was arrived at:

* The Pier 4 land would continue to be owned by the Pier 4 Restaurant Real Estate Corporation.

* The Pier 4 development would be owned by a limited partnership with Athanas and his four sons serving as the general partner with a 1% ownership. The remaining 99% would be owned by the Pier 4 restaurant as a limited partner. (This provided liability protection for the restaurant while still enabling it to use the development as a shelter. However, the proposed tax bill will probably force some changes to be made in this partnership structure.)

* An additional corporation would be formed called Boston Mariner. This entity would be entirely owned by Athanas and his four sons with each having 20% ownership. They would constitute the board of directors and Watts would serve as president. Boston Mariner's purpose was to manage the development process of Pier 4 as well as any other real estate development activities that Athanas or any of his sons undertook. These other activities would also each be structured as separate limited partnerships with the Athanases as the general partner.

* Watts would receive as compensation a straight salary with cost-of-living escalators plus a discretionary annual bonus voted on by the board of directors. In addition, on any non-Pier 4 developments that involved Boston Mariner, Watts would be able to negotiate a limited equity position

for herself.

* The Athanases personally provide Boston Mariner with the funding to cover the salaries of Watts and a secretary, plus rent and normal office expenses. Once construction financing is being drawn down, Boston Mariner will support itself by charging the Pier 4 Limited Partnership a development fee equal to 2% of the hard costs.

Watts began working at Boston Mariner in June 1985 and quickly felt that the then current Pier 4 design did have environmental problems which could best be resolved by hiring yet another architectural firm. Watts had studied architecture under both Gerhard Kallmann and Michael McKinnell of Kallmann, McKinnell & Wood and she was able to persuade this prestigious firm, which had been named the American Institute of Architects' firm of the year in 1984, to undertake the redesign of the Pier 4 site.

In the fall of 1985, Boston Mariner and HBC submitted a new set of proposals for Pier 4 and the Fan Pier, documented in the form of a Draft EIR which was published in December 1985. Hoyte, of EOEAA, solicited reactions from community groups, trade associations, and governmental agencies. He received over two dozen written responses and numerous community meetings were also held. In general, the proposals were well-received, and Hoyte accepted the Draft EIR at the end of January 1986.

However, before Boston Mariner and HBC could proceed with

construction, they still had to obtain over three dozen approvals from a collection of city, state, and federal agencies. The most significant of these also involved several of the issues that had been expressed to Hoyte.

The Boston Redevelopment Authority has to approve the Planned Development Area since the project does not conform to the existing zoning. As described in their Development Review Procedures, the BRA will be evaluating the design, environmental and transportation impacts, effects on surrounding neighborhoods, and financial aspects of the project.

EOEA has to approve the final EIR submission and the Massachusetts Department of Environmental Quality Engineering has to approve any project which is sited on what are or were formerly tidal flats. DEQE is especially concerned about ensuring that any waterfront-related project provides sufficient benefit for the overall public.

By mid-1986, Boston Mariner and HBC were devoting most of their time to resolving the various issues which they had to address in order to receive their approvals. They expected that the bulk of the approvals process would be behind them after March 1987. They plan to begin preliminary construction work in July 1987 and to begin full construction in November 1987.

Chapter 2

Current Real Estate Market

All major aspects of the Boston real estate market are important to the Pier 4 project since the total space will be comprised of 35% office, 16% hotel, 44% condominium, and 5% retail when fully built (see Exhibit 1). Markets for the first three uses are discussed in detail below, however, the retail market is not since it represents a very small portion of the total project.

Office Market

Depending on whom you talk to, the Boston office market for class A space has excellent potential over the next five years or it may be headed for some problems.

According to the Spaulding & Slye Office Report, there were 29.5 million square feet of class A office space existing in the downtown and Back Bay areas of Boston at the end of March 1986 with a vacancy rate of 11%. By 1988, an additional 4.7 million square feet currently under construction will be available of which 14% is preleased. Moreover, 3.3 million square feet are proposed for completion by 1989 which are 7% preleased. The Pier 4 and Fan Pier projects are not included in any of these figures.

The Boston Redevelopment Authority expects that 9.7 million square feet of class A space will have been added to the market during the years 1986 to 1990. They forecast that absorption rates for this space will be 1.6 million

Exhibit 1
 Specifications for
 Pier 4 and Fan Pier Developments

	Pier 4 (as of 7/1/86)	Fan Pier (as of 2/12/86)
PHASE I:		
Hotel	269,831 sf (290 keys)	
Office	249,450 sf	
Retail	50,827 sf	
Condominium	167,820 sf (100 unit)	
	737,928 sf	
PHASE II:		
Retail	19,500 sf	
Condominium	439,920 sf (300 unit)	
	459,420 sf	
PHASE III:		
Office	322,440 sf	
Retail	9,024 sf	
Condominium	121,000 sf (80 unit)	
	452,464 sf	
PROJECT TOTAL:		
Hotel	269,831 sf (290 keys)	854,000 sf
Office	571,890 sf	1,406,000 sf
Retail	79,351 sf	153,000 sf
Condominium	728,740 sf (500 unit)	834,000 sf (600 unit)
	1,649,812 sf	3,247,000 sf
PROGRAM PERCENTAGES:		
Hotel	16.4 %	26.3 %
Office	34.7 %	43.4 %
Retail	4.8 %	4.7 %
Condominium	44.2 %	25.7 %
	100.0 %	100.0 %
EXISTING CONDITIONS		
Exist. Pier & Land	8.9 acres	15.9 acres
Exist. Water	7.5 acres	2.6 acres
	16.4 acres	18.5 acres
Total Site	16.4 acres	18.5 acres
FAR (Pier & Land)	4.27	4.68

square feet per year for each of the years 1986 through 1990. This is identical to 1985's rate but lower than 1984's rate of 2.4 million square feet. At this absorption rate, all of the newly constructed space could presumably be leased by the end of 1991.

The successful absorption of this space is naturally affected by whether additional construction will also be taking place. However, the BRA states in their Downtown Projects II:

"On the supply side, the inventory of office space to be completed from 1986 through 1990 is a known quantity and is not likely to be subject to significant variation in view of (1) the time scale of the review and construction process and (2) the city's role in monitoring the development market to achieve balance."

Given the proposed amount of construction and the predicted absorption rates, it would appear that the Boston office market over the next five or more years will remain very healthy, especially if the BRA is effective in limiting new construction. However, a more pessimistic viewpoint would challenge both the levels of construction and absorption.

As with other parts of the country, Boston has had a significant amount of office space constructed in the 1980's and the factors that led to the boom elsewhere also applied in Boston. Changes in the tax code in 1981 which lowered the capital gains rate and shortened the depreciable life of buildings favored real estate investment. Syndicators were

also able to take advantage of these changes and were very successful in raising money for real estate investment.

Breakdowns in the traditional institutional barriers between financial intermediaries also made more money available for real estate investment, especially by allowing savings and loan institutions to invest broadly in commercial real estate. In addition, the ERISA laws permitted pension funds to diversify into real estate. Drops in inflation, interest rates, and oil all tended to lower the costs of development.

In addition, many large North American developers such as Cadillac Fairview, Olympia and York, Trammell Crow, Gerald D. Hines Interests, and others have taken a national view of real estate instead of a regional one. As a result, the amount of development in one area is no longer limited by the capacities of the existing developers, but instead large firms can quickly move into town with significant resources and add substantial amounts of supply. An area such as Boston has looked very good to developers in depressed areas such as Texas.

To date, Boston has been able to absorb the rapid increase in development because the local economy has been very strong. This economy is rooted in high-technology and it is fed by the defense industry and the entrepreneurial spirits of scientists. Although the high-tech firms tend to be outside of Boston proper, their support services such as financial institutions, lawyers, and accountants, require a

centralized location and therefore they gravitate to downtown Boston.

While the economy may remain strong, a major problem for developers may be whether companies can find enough employees to fill all the new buildings. According to Spaulding & Slye, in March 1986 the greater Boston area had an unemployment rate of only 4.5%. As a result, Massachusetts firms have to attract their employees from out of state.

However, Boston is regarded as having the highest housing costs in the United States which becomes a deterrent to workers relocating into the area. The National Association of Realtors reported that the median resale housing price in Boston's Standard Metropolitan Statistical Area rose 37% from the first quarter of 1985 to the same period in 1986. This resulted in a median housing price of \$149,000 which was the highest among the 43 metropolitan areas that were surveyed.

The BRA assumes an increase of approximately 35,000 new office workers to sustain their absorption forecasts. Therefore, a lack of available workers would have a significant impact on Boston's absorption levels.

The second issue about the health of the downtown real estate market involves just how much square footage will be built. One of the other reasons that is often cited for Boston being able to absorb what has been built acknowledges the role that the BRA has played in limiting the amount of development.

However, despite the proposed tax bill which removes some

of the incentives that had aided real estate investment, indications are that the BRA will be bombarded with proposals for further development. In the Fort Point Channel area alone, the World Trade Center is proposing to add over 2.5 million square feet, Cabot, Cabot, and Forbes is proposing to add 5 million square feet, and Boston Wharf is proposing to develop a 13 acre site, which would add over 2.2 million square feet (assuming a floor/area ratio of 4).

In addition, there are proposals for an office complex associated with a new Boston Garden, Fidelity and Travelers are each proposing buildings, and development atop the Tremont Temple is also being considered.

Given the constricted growth in employment and the potential increase in office supply, Boston may face a substantial increase in vacancy rates and therefore, a drop in rents. Spaulding & Slye reported that vacancy rates in the Boston suburbs rose from 15% to 20% over the March 1985 to March 1986 period. Effective rental rates are now 10% to 20% lower than they were at the start of that period, which they feel is a direct result of the higher vacancies.

In Boston there is also evidence that developers are becoming concerned about potential oversupply and are adjusting their effective leases accordingly. The Boston Business Journal reports in its July 14, 1986 edition:

"Of the five financial district towers completed since 1984, only one, 200 State Street, will still be seeking major tenants next year, according to brokers and developers.
"Spurring all this activity is the fear

that space still empty when the next generation of towers starts opening will be virtually impossible to lease. Because of this, many recent deals are more generous than the ones struck when the buildings first opened - the exact opposite of how things usually work in office leasing."

There are also two other factors that may hurt the Boston office market. One issue is the demand for workers. The BRA feels that the economic sectors that fuel Boston's economy will grow more rapidly than the nation's economy as a whole. While this may be true, that does not mean that the local economy is recession-proof (other areas of the country found out that their "recession-proof" economies were not: e.g. Houston). If Boston were to experience a recession, the issue of whether enough workers could be imported would become moot: there would be no demand.

A second issue affecting the Boston office market is the suburban office market. The Boston Business Journal reports in its July 28, 1986 edition that some downtown firms have obtained space in the suburbs because of the aggressive price and amenities packages offered by the developers there. Moreover, other downtown firms are also seriously considering leasing suburban space.

Spaulding & Slye support that view while a senior vice president at Leggat McCall & Werner disputes it. Since Spaulding & Slye's traditional marketplace has been the suburbs and Leggat McCall's has been downtown, either of these views may be somewhat self-serving. Nonetheless, it does seem reasonable that the suburbs do offer some amount of

competition to the downtown market and their amount of supply is not centrally controlled by the BRA or any other entity.

Although there are the conflicting viewpoints about the Boston office market, the better one to plan for is the pessimistic scenario. For the optimistic one to work, too many factors have to fall into place: the local economy remains strong, sufficient workers relocate to Massachusetts, there is no excessive construction in Boston, and the suburbs do not syphon off some of Boston's absorption.

Nevertheless, even given the pessimistic view, there can still be some good development opportunities for locations with good views, good amenities, good parking, good transportation, good prestige, et cetera. As an example, Rowes Wharf which has a waterfront location, good design, underground parking, boat slips, and a quality image in general, has been able to obtain top rents with minimal concessions. They are approximately 25% preleased and are fifteen months from completion.

However, in a troubled market even the best opportunities may face downward pressures on their effective rents and lengthened lease-up times. Therefore, it is critical that any developer who is going to be active in such a market should have the financial staying power to allow the project to survive.

Hotel Market

The hotel market in Boston has had a rapid increase in supply for the same reasons that were listed above for the

office market. In addition, the allowance of an investment tax credit for furniture, fixtures, and equipment provided further financial incentives for hotel construction. Basically, the industry became finance-driven instead of being market-driven. As a result, there has been a decline in the occupancy rates for those hotels that would appear to be competitive with the Pier 4 development.

According to a study by Pannell Kerr Forster, the hotels that they considered to be competitive with Pier 4 had 1983 to 1985 occupancy rates of 74%, 73% and 67%. Admittedly, the 1985 figure includes the performance of the Four Seasons and the Lafayette which were just opening and the performance of the Ritz Carleton which was being refurbished. At the other extreme, the hotel with the best success was the Marriott Long Wharf which had an occupancy of 85% to 90% and was also the only waterfront hotel in the group.

An additional factor which may have depressed most of the hotels' occupancies was the closing of the Hynes Auditorium which was Boston's primary convention center. The Hynes will remain closed until the beginning of 1988 while it undergoes a major expansion and total refurbishment. However, even anticipating the Hynes's reopening, PKF's forecast for 1986 to 1994 is 68%, 70%, 71%, 66%, 59%, 62%, 64%, 65%, and 67%. This also presumes that the only new hotels opening during this period will be at Rowes Wharf, the Fan Pier, and Pier 4.

The study contends that these three new hotels will preclude hotels considered at Haymarket Square, South Station,

Boston Garden, and Prudential Center from being built before the new ones have been absorbed. Although the amount of oversupply that exists in various real estate markets does not support this contention of orderly economic behavior, proposed changes in the tax code eliminating the investment tax credit would make hotel construction much less appealing.

In general, the hotel industry in Boston does not appear too attractive. The existing supply of hotels plus the three new ones that are planned seem likely to keep the average occupancy rates below 70%. The PKF forecast also assumed a strong local economy, so a recession would probably ensure that the average occupancy rates were below 70%. A downturn in the local economy would impact the commercial/business segment of the hotel industry. If the recession was more national in scope it would impact the group/convention and tourist/transient segments as well.

Since a widely-held view in the hotel industry is that a 70% occupancy rate is needed to receive a decent return in the industry, the overall prospects are not good. Even for some of the isolated successes such as the Marriott Long Wharf, the future may be cloudy. Long Wharf is currently the only waterfront hotel, but Rowes Wharf, Fan Pier and Pier 4 will all be on the waterfront also.

Therefore, the development of a hotel, when viewed separately, does not appear to be a good investment. If it is deemed to be a necessary component of a mixed-use develop-

ment, it may be justified, but even then, it should only be considered after the developer is absolutely convinced that it is essential to the success of the overall project.

At that point, the objective should be to minimize the developer's exposure with the hotel. Build it smaller, or build it cheaper, or sell equity to someone else, et cetera. In other words, try to stay out of the hotel business.

Condominium Market

As mentioned earlier, housing prices in Boston are the highest in the nation. The condominium market in the past few years could also be characterized as being very hot. According to PKF, there were about 20,000 condominiums in Boston at the end of 1985. Approximately 15% of those were sold in that year. While the average price in 1984 was \$108 per square foot, that rose to \$135 per square foot in 1985.

Probably a contributing factor to the rapid rise in price has been Boston's attempts to limit the number of apartments that can be converted to condominiums. Therefore, one of the mechanisms that might normally be used to quickly increase the supply of condominiums in an active market has not been readily available.

The subset of the market that would be considered to be luxury condominiums has probably been even hotter. These dwellings are usually distinctive because of their quality of construction, their amenities packages, and their location.

In 1985, the Four Seasons was selling condominiums at rates in the \$300 to \$400 per square foot range depending on

their size and their view. At the time, these prices seemed extraordinarily high for Boston. Interestingly, the condominiums with the best views, and therefore the highest prices have sold out. The units with the poorer views have been selling very slowly through mid-1986 and will probably have their prices lowered.

In 1986, Rowes Wharf started out 18 months ahead of completion to sell 100 condominiums at an average of \$400 per square foot. Sales were so rapid that Rowes was able to raise their price to over \$500 per square foot on the few remaining ones that they had left to sell.

However, since several purchasers of condominiums are investors (sometimes a euphemistic term for speculators), condominium prices can be very volatile. Moreover, the proposed tax changes would definitely have the effect of reducing the appeal of condominium investment for many people.

Therefore, Boston's recent experiences with condominiums should not be blindly extrapolated in an attempt to predict what the future of the condominium market will hold. Rather, a careful look at the fundamentals of a particular condominium project will produce a far better forecast of what a developer might reasonably expect to receive for condominium units.

Conclusions

In general, the real estate market will be a much tougher place to do business than it was ten years ago. Overbuilding, proposed changes in the tax code, and larger, tougher

competitors have combined to result in fewer good opportunities. However, chances will still exist for developers with good locations and good finances.

Therefore, the focus for any developer, and especially a new one, has to be finding the good locations, determining the right uses of the sites, and securing adequate financing to not only construct but also to reach stabilization in a competitive market.

Chapter III

Critical Issues for Boston Mariner

For virtually any firm, critical issues that should be periodically confronted are: what business are we in?, why are we in it?, what are our strengths and weaknesses?, and should we remain in the business?

What Business is Boston Mariner In?

Both the Athanases and Watts agree that Boston Mariner's business is real estate development. However, the Athanases appear to primarily view Boston Mariner as a vehicle to get Pier 4 developed while Watts appears to view Pier 4 as a vehicle to get Boston Mariner established as a major developer.

Certainly, over the next five years these divergent views overlap substantially and therefore would cause no problem. However, once Pier 4 is completed the structure of Boston Mariner could eventually create some difficulty since there is no overlap between the shareholders (the Athanases) and senior management (Watts). This is very unusual in start-up companies, even those that received liberal funding from venture capitalists since it is regarded as an important motivation for the senior management of small companies to have a piece of the action.

Basically, over the next five years, the mission of Boston Mariner can be described as the development of Pier 4.

Why is Boston Mariner in the Business?

The primary reason Boston Mariner is in business is to fulfill the aspirations of the Athanases and Watts. Although Athanas Sr.'s initial attraction to real estate may have been the financial rewards, the Pier 4 project has grown to symbolize the capstone of his successful business career. For Watts the development represents an opportunity to establish herself as a member of the elite group of developers who have been involved with a project of such size and prominence.

Therefore, this project is viewed in a broader context than just financial reward by both the shareholders and management. These motivations may later prove to be very important in structuring various external financial arrangements.

Strengths and Weaknesses of Boston Mariner

The analysis of Boston Mariner's strengths and weaknesses can be loosely organized into 2 sections: general issues and those related to Pier 4.

General Issues

Typically, the biggest weakness for any start-up firm is that, by definition, it has never done before that which it is setting out to do. Certainly, Boston Mariner is no exception to this rule. Watts had experiences with large-scale development as an architect and received a formal education in development, but had not been a developer, per se. The Athanases have had experience developing restaurants, but not offices, hotels, and condominiums. What they collectively lack is experience in financing, construction, leasing, and property management.

However, although this inexperience is a weakness, it certainly does not have to be fatal, as is evidenced by those start-up firms that do succeed. Moreover, there are also some distinct benefits that can accompany being a start-up.

First is the advantage of starting with a clean slate. There are no lingering, marginally profitable projects ("the living dead") that sap management time and energy and perhaps financial resources as well. Second, there are no skeletons that can come back to haunt the firm or tarnish its reputation.

In general, if a firm is going to overcome its lack of experience, it will do so because of its personnel. As an example, almost any successful venture capitalist analyzing a potential investment will place the most emphasis on the management as opposed to the idea or the market. The reason for this is that entrepreneurial activities, with all their unpredictability, place an extreme burden on the management team.

Boston Mariner certainly has as a strength the people involved. The Athanases' abilities as businessmen have been demonstrated by their extremely successful set of restaurants: Anthony's Pier 4 is consistently among the top five grossing restaurants in the country with revenues in excess of \$13 million. In addition, his restaurants have provided Athanas Sr. with a set of extremely influential friends who already have been and will continue to be very helpful in the development process, especially the approvals part.

Watts has a strong background in architecture which proved to be an aid in finally getting a design for Pier 4 that was acceptable at the Draft EIR level. As a team, Watts and the Athanases have been able to get their Draft EIR and their Master Plan for a PDA approved during the past year.

These approvals moved the project from the fantasy stage to the point of being a seriously viewed project. The February 13, 1986 issue of The Boston Herald announced the Master PDA approval with the headline: "Restaurateur step closer to \$1-billion pier dream."

As mentioned earlier, two factors that are helpful in this apparently weakening real estate market are good locations and deep pockets. Boston Mariner, via the Athanases who have excess land at three of their restaurants, has access to some developable locations. In addition to the Pier 4 site, a site straddling Swampscott, Salem, and Marblehead may also merit development in the near term, and a site on Cape Cod may also show promise once the housing glut on the Cape subsides.

Financially, Boston Mariner is in a reasonably strong position since these sites are owned outright with no debt. Moreover, the five restaurants generate a steady stream of cash that can fund at least modest-sized developments.

Overall, Boston Mariner has as its strengths, good people, good locations, and good financials. Its major weakness is its lack of experience.

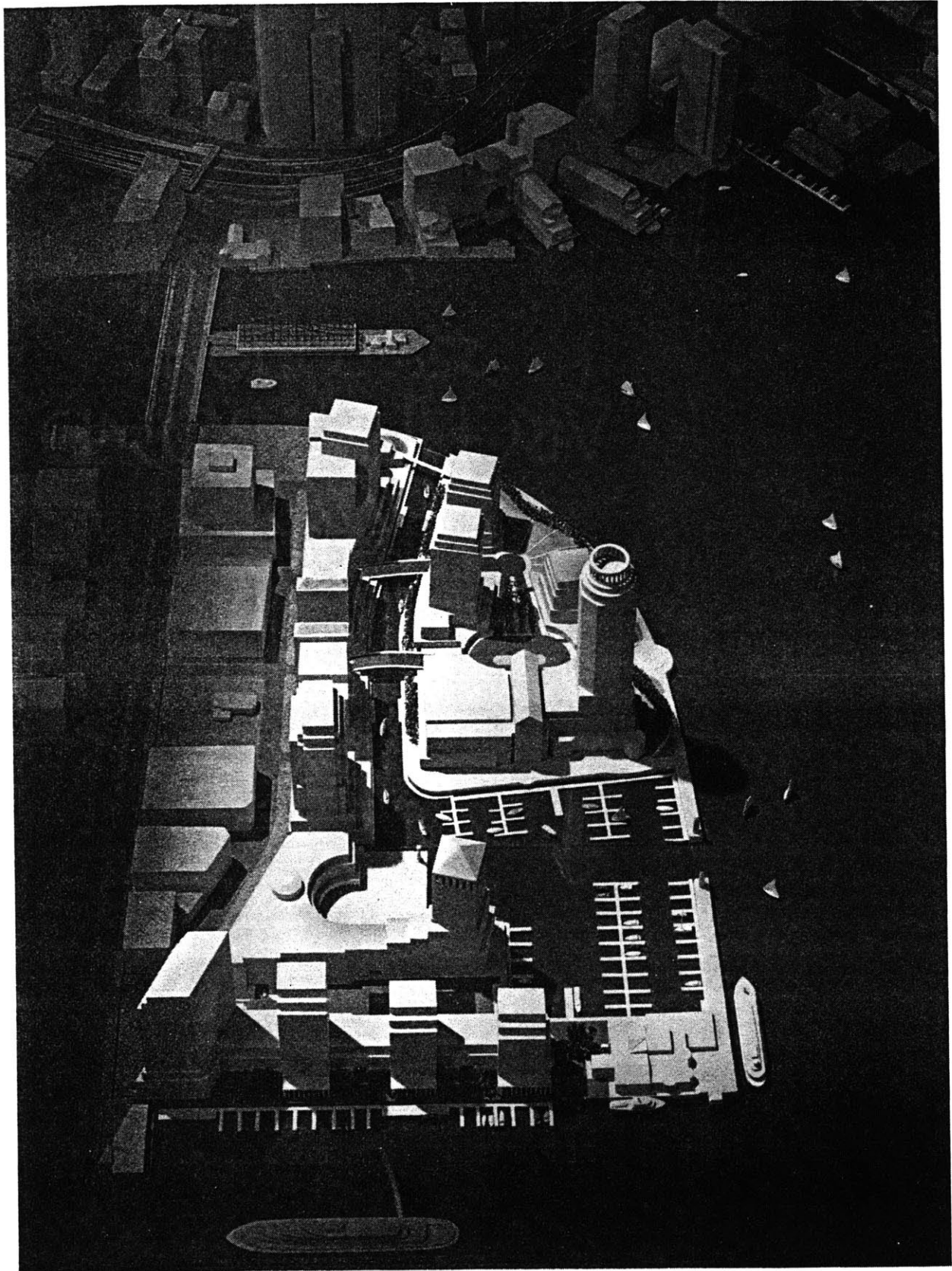
Pier 4 Issues

Pier 4 has as its major strength its location, which is not surprising given the old real estate adage about location, location, and location being the three most important factors (a new adage would also include timing and staying power). Pier 4 is within a mile of Boston's financial district, is directly on Boston Harbor which provides a basis for the marine theme of the project, and has a spectacular view of the Boston skyline (see illustration on next page).

In 1986, virtually every one from the mayor on down has conceded that Boston's downtown no longer has any room for further major development. Rather, that growth will have to be across the Fort Point channel in the area where Pier 4 is. Therefore, as that area develops, Pier 4 and its sister project, the Fan Pier, will be ideally located to be its focal point.

Moreover, as developers try to one-up each other in their competition for tenants, certain on-site amenities such as a major restaurant or a fine club have become important. The Pier 4 site already has a world-famous restaurant and a setting where many of Boston's powerbrokers have been going for years.

As mentioned earlier, one of the very successful projects in Boston as of mid-1986 has been Rowes Wharf. They have been able to charge high office rents (\$38 per square foot) during their preleasing phase and they were able to sell all of their condominiums at a top price. Recapping, the reasons



for their success would appear to be their waterfront location, the quality of their design, the expected quality of their construction, and their other amenities such as boat slips and underground parking.

Pier 4 will be essentially comparable to Rowes Wharf in all of the above areas. Therefore, Pier 4 should be expected to have good success in the leasing of office space. The sale of condominium units should normally also be strong but probably will not match Rowes Wharf's success.

The problem is that the Fan Pier will be creating 600 luxury units and the first phase of Pier 4 will be creating 100 luxury units. As reported by PKF the total number of all new units, not just luxury units, sold in Boston in 1985 was 3,000. Since Rowes Wharf only had 100 units to sell, the absorption of 700 units should take much longer and will probably require lower prices, especially if the proposed tax changes keep investors out of the market.

The 380 units planned for the second and third phases will have less direct competition, but they will also have poorer views and therefore, will probably still not be able to command as high a price as the initial units.

Another difference between Rowes Wharf and Pier 4 is their location. Being across the Fort Point Channel gives Pier 4 a better view of the Boston skyline. However, being across the channel creates a sense of separation that probably will not be viewed as an advantage, at least not before the whole area undergoes some upgrading.

On the other hand, Rowes Wharf will be directly adjacent to the pandemonium that will be taking place if and when the central artery is depressed. However, today's lessees and buyers may not be looking that far ahead.

The Pier 4 hotel will have two hotels very close to it: one at Rowes Wharf and a Hyatt at the Fan Pier. However, each hotel will have some significant differences. The one at Rowes Wharf will have 230 rooms and will be striving for a five star rating and therefore is anticipated to have very high room rates. The Hyatt will be forty stories high with eight hundred rooms and will not have the intimacy of Pier 4's 290 room hotel.

Nonetheless, as mentioned earlier, all of these hotels are on the waterfront and that may be the primary attraction for each of them. If that is the case, the value of the Pier 4 location as a hotel site becomes diluted. Waterfront hotel rooms might be viewed as a commodity, and the market might simply regard the Pier 4 hotel as representing 22% of the available supply (17% if the Marriott Long Wharf is included).

The retail space should be able to attract prime tenants since it will be adjacent to the edge of the marina which is expected to be a major destination also appealing to the suburbs because of good parking, and eventually good access.

Barring a substantial downturn in the Boston market (office vacancy rates greater than 20%), the Pier 4 project should have success with the office and retail space. The

condominiums, however, may be a victim of bad timing because of the Fan Piers project and the hotel could definitely have its problems because of oversupply.

The Pier 4 project has some other problems, though. The primary one is its sheer size. When it is fully completed, the project will have 1.6 million square feet and will have cost as much as \$400 million to build. Although the Athanases' net worth would be considered substantial by normal standards, much of their net worth is illiquid and a project of this size is realistically beyond their means.

Moreover, obtaining adequate financing will be difficult. The size of the project limits the potential financiers to a handful of the large money-center banks. In addition, Boston Mariner is new and does not have a track record of development successes.

Another problem with the project's size is its length to completion. The current phasing plan produces a seven to eight year period over which construction will be taking place. In general, many developers feel that the riskiest aspect of the development business is the actual development phase. In addition, developments that take five to ten years to complete are viewed as being even riskier. That risk is further compounded in a real estate market that may be heading downward.

To some degree the risk of a long project could be lessened by viewing the second and third phases as being optional or discretionary. However, depending on what the

phasing is at the Fan Pier, these two phases may be needed to provide the overall Pier 4 project with enough pizzazz and excitement for the retail and hotel elements to have a chance at success.

Finally, the project's size additionally puts a burden on the personnel resources of Boston Mariner, which can be easily over-stretched with only one full-time professional.

Another area of weakness associated with the Pier 4 project involves transportation to the site from downtown Boston. The current means is primarily via the Northern Avenue bridge which is woefully inadequate at current levels of traffic. A new bridge is proposed which would help the situation, but the start date of the bridge construction has not been set, although the state's engineers are saying the summer of 1987.

Moreover, not everyone is in favor of the bridge being built at this time. At least one person in the real estate industry, mortgage broker John Fowler, has been quoted in the Summer 1986 issue of Boston Business as saying that he hopes the bridge is not built for several years in order to let the newer downtown office buildings reach full occupancy without facing additional competition. It would not be surprising to have some of the downtown building owners sharing his opinion.

There is also the possibility that an old controversy may resurface regarding whether the bridge should have a fixed span or a movable span. In summary, this critical transpor-

tation issue has not yet been finalized.

In addition there are other transportation problems which need to be resolved, such as depressing the central artery, adding a third harbor tunnel, and building a connector from South Boston to the Massachusetts Turnpike. Although these do not all have to be built before approvals can be obtained, they certainly are needed before the project can be expected to reach its full potential as a place to work, live, and visit.

As is evidenced by the transportation problems, this project is a pioneering effort in a frontier region of Boston and therefore very risky. Although Athanas was able to attract restaurant patrons, that is a far smaller effort than convincing people to live and work in an area.

Summarizing, as things stand, the Pier 4 project has uses that should be successful, office and retail, one that may be successful, the condominiums, and one that could be a problem, the hotel. The major weaknesses of the project result from its large size, the transportation problems reaching the site, and its trailblazing role in the development of the area across the channel.

Should Boston Mariner Remain in the Business?

Boston Mariner has made great strides in moving the project along the path from dream to reality by developing a good program and design and by climbing two key steps in the approvals process. However, the majority of the development effort still remains (although there can be a temptation to

feel that the worst has passed once the approvals are over).

In addition, almost all of the incremental risk is still present (Athanas took the risk on the land long ago, therefore this project has been relatively risk-free to date).

However, as mentioned earlier, the Athanases and Watts are not motivated solely by money in doing this project. Therefore, they should continue on, but with a watchful eye on the risks that they face: they lack experience, the project is very large, the site is difficult to reach, and the site is still part of the frontier. Any of these could produce a financial disaster.

Chapter IV

Goals

There are three goals that should be guiding the actions of Boston Mariner. They are preservation of the Athanases' net worth, development of the Pier 4 project, and the longevity of Boston Mariner as an organization.

Preservation of the Athanases' Net Worth

Athanas Sr. has built a considerable net worth over his almost fifty years of working in this country. As mentioned earlier, his major motivation is looking towards the future welfare of his sons and their expected families. No business activity that he is involved in should be allowed to jeopardize all that he has worked for.

Although Athanas gambled heavily when he built the Pier 4 restaurant, he was 25 years younger at the time and had many earning years ahead of him. He now has more to lose and less time to regain it.

Accomplishment of this goal can be measured by the Athanases having a downside risk that would still leave them debt free although they might be illiquid. They would then at least be in a good position to successfully rebuild their net worth.

Development of the Pier 4 Project

As stated above, this project has substantial meaning to both the Athanases and to Watts. The project is one of the most justifiable (warranted) projects to be proposed in Bos-

ton in recent years. It has all the appearances of being able to be extremely successful from both financial and aesthetic standpoints, although it may take ten or more years for the former to be achieved.

Accomplishment of this goal can be measured by the first phase being completed within five years, barring extraordinary events such as the Northern Avenue bridge being postponed.

Longevity of Boston Mariner

Boston Mariner has been formed primarily because of the Pier 4 project. However, the implementation of such a complex project will produce an organization that is capable of continued successes in real estate development. Moreover, two of the Athanas sons, Anthony Jr. and Robert, have an interest in eventually devoting more of their personal energies towards development.

Unlike wartime when talents are assembled for a specific cause, there is no reason for Boston Mariner to disband upon the completion of Pier 4.

This goal can be measured by Boston Mariner at the end of five years having a staff of at least three professionals, development fees sufficient to support the organization, and at least one non-Pier 4 project developed or under development.

Chapter V

Strategies

There are three major strategies for Boston Mariner to pursue in accomplishing their goals. These are obtaining a joint venture partner, pursuing other development opportunities, and expanding the staff at Boston Mariner.

Obtaining a Joint Venture Partner

General Background

One piece of advice that can be given to the founder of a company is to hold onto as much equity as possible and to not relinquish control of your firm unless you are prepared to leave. Certainly, Athanas Sr. has acted consistently with that advice since he chose not to bring in an outside developer for Pier 4 and he even has misgivings about having issued the ground lease on the Fan Pier.

Nonetheless, if a founder is going to sell equity, it is desirable to receive more than just money. An objective is to reduce the founder's risk in the enterprise. Therefore, an ideal equity partner has expertise that is relevant for the founder, contacts that can be helpful, and deep pockets to ensure survival of unanticipated events. Therefore, the sale of equity should not just be based on price, but should also consider these other three very important factors.

However, for a small firm the most important consideration in selling equity, especially if it is more than ten or twenty percent, concerns the chemistry between the founder

and the buyer. A significant equity holder becomes a de facto partner in the firm, and if the purchaser and the founder can not cooperate, the firm's energies can be sapped because of the conflicts. Additionally, there is also less likelihood of the firm receiving the benefit of the buyer's expertise, contacts, and deep pockets.

In the case where the equity purchaser is expected to be an active partner (as in the case of two real estate developers working on a joint venture), the chemistry issue becomes absolutely critical in importance.

Presuming that a joint venture partner is found who meets all of the above criteria, issues still remain about who does what and about how the entire entity will be managed. In Boston there have been some recent joint ventures between developers which illustrate contrasting ways of managing this type of activity.

Case 1

In this case a local developer with a five-person operation (Firm 1) teamed up with a very large, well-known out-of-town firm (Firm 2). Firm 1 had had prior joint venture experiences, although not with Firm 2 and not on a project of this complexity. The development was a highly specialized one: one in which Firm 2 had had extensive prior experience.

The management structure for the joint venture was fairly intricate. A staff which included some people from Firm 1 was hired to perform leasing and they reported to both Firms 1 and 2. The firms jointly decided on a general contractor

and each provided a construction representative.

Firm 1 started out by trying to hire the architect, but ultimately the architect that was used was introduced by Firm 2. The project management function was split between the two firms with each taking responsibility for certain aspects of the project.

The day to day workings, however, did not exactly follow the script (which is not surprising in an entrepreneurial activity). Sometimes one firm had more expertise than the one which was originally expected to be the expert. Sometimes the ball would get dropped on some aspects of the project. Eventually, instances such as these resulted in compensation and bonuses being adjusted.

However, people often resisted changes and would try to stick to the original expectations, even in the face of better alternatives. People would also sometimes lose sight of the bigger picture and get bogged down in petty issues. There also was no mechanism for resolving disputes which probably allowed them to linger for longer than was necessary.

The overall venture was a success, but the primary improvement suggested for this type of organization was greater flexibility. If one firm was not performing in an area as expected, the partnership should be able to make the necessary adjustments quickly and easily.

Case 2

This case involves two local developers who teamed up for a project. The joint venture was set up as a fifty-fifty

proposition with both firms being equally represented on a steering committee which made all major decisions. A development staff was created using personnel entirely from one of the firms. This staff reports to the committee, but has great amounts of discretion as long as they stay within the specified budgets.

In addition, members of the committee pitch in when appropriate. Examples would include design decisions, marketing activities, et cetera.

In some ways, this structure seems similar to the relationship between Boston Mariner and the Athanases.

A Partner for Boston Mariner

Boston Mariner needs a joint venture partner because of the two big weaknesses listed earlier: Boston Mariner's lack of experience and Pier 4's extreme size relative to their financial capacity. The right partner can provide expertise, especially during the extremely risky construction and leasing periods. In addition, the partner can add the credibility that will be needed to obtain the necessary financing for the project.

Moreover, there are risks of operating a project once it is completed. As mentioned earlier, the hotel, in particular, may be very risky. Hotels have been notoriously difficult to make a profit on in the past and lenders often require that the developer have a much higher level of equity in a hotel investment. With some of the proposed tax bill changes which would eliminate investment tax credits, it may

be very hard to run a hotel profitably, even with occupancy rates that would have formerly been considered respectable.

Finally, a joint venture partner provides the Athanases with the advantage of not having to place as much equity into the Pier 4 project which has obvious advantages for lessening their overall financial exposure.

Ideally, a partner should be sought for just the first phase since this represents the most complex and riskiest part of the project. Normally, on a multi-phase project with essentially similar phases, the first phase will be the riskiest since there are more unknowns associated with the construction and marketing than there would be in the latter phases. These phases have the benefit of hindsight and possibly more flexibility in their timing. In the case of Pier 4, the risks are amplified since the first phase contains four uses (including a hotel) plus marina development, while the second and third phases have one and two uses, respectively (excluding retail which is almost negligible).

When the first phase is completed, Boston Mariner will have also gone through an entire development cycle which will give them valuable experience and additional credibility, thereby lessening their subsequent need for a partner.

However, many potential partners may balk at not having an opportunity to participate in the later stages. This can be an item of negotiation as can the amount of equity that the partner receives. For reasons of control, the partner's equity should definitely not exceed fifty percent even though

that may mean having to offer the partner preferences on some of the cash flows.

The profile of Boston Mariner's ideal partner would meet all the criteria listed earlier: expertise, contacts, deep pockets, and good chemistry. As to whether the ideal partner should be from out-of-town or from Boston is debatable.

An out-of-town firm would probably acknowledge the difficulty of developing in Boston and would recognize the value of Boston Mariner who controls an excellent site, has a very exciting design, and has the skill to get through the approvals process. Therefore the out-of-town firm would be less likely to try to eclipse Boston Mariner's presence in the project.

On the other hand, a local firm would have more market knowledge than an out-of-town firm. Given the concerns of potential condominium and hotel oversupply and Pier 4 being on the frontier, marketing issues will be crucial and two heads are better than one.

Ultimately, the decision will probably boil down to the chemistry between Boston Mariner and any potential partner.

Probably the best structure for the two firms working together would be the approach of a dedicated staff as was used in the second case. Having a group of individuals committed to a task force increases the chances that they will identify more with the task at hand and will be less likely to get involved in parochial squabbles.

The composition of the staff would depend on who the

partner was. One approach would be to use the partner's staff if the partner had the right people on board and they were willing to relocate, if necessary. Another approach would be to hire people from the outside. Based on the experiences detailed in Case 1, the best approach to this issue requires flexibility. Therefore, the optimum staffing plan is impossible to predict without knowing the specifics of who is involved.

When the right partner is found, the right deal is negotiated and the right organization is formed, a major step will have been taken towards the accomplishment of all three goals: preserving the Athanases' net worth, building the Pier 4 project, and the longevity of Boston Mariner.

Pursuing Other Development Opportunities

A real estate development firm can be involved in passive real estate investment or in consulting in addition to being involved in the more traditional role of a developer. Each of these activities has its pluses and minuses.

Passive Real Estate Investment

Passive real estate investment is loosely defined as meaning that money is invested but no other resources are provided. One obvious advantage is that this places little demand on the personnel so substantial amounts of money can be invested with a very small staff. Moreover, investing smaller amounts over a range of projects should reduce risk by providing diversification.

However, the Athanases will be committing to a substan-

tial investment in real estate through the Pier 4 project and perhaps other development opportunities. Whatever financial resources they have that are available for passive investment should be invested in non-real estate-related instruments such as stocks or bonds. Not only does this provide diversification away from real estate, but it also provides liquidity which is valuable while a project as large and with as many unknowns as Pier 4 is being developed.

Consulting

Consulting can have some benefits for a development firm. It is an opportunity to deploy slack resources in a way that enables them to at least pay their own freight. Since consulting is an external activity, it also allows the firm to see and to be seen. Therefore, it is a convenient way to conduct market research and to also maintain a profile in the real estate community. In general, it can be a way of finding opportunities.

However, consulting also has its downside. It is not very profitable, if at all, and there is little opportunity for leverage (making more money on the next job than on the last one). Yet, to be done properly, it requires the firm's top people and a very conscientious effort. If a firm is midway through a consulting assignment and a great development opportunity arises, there is no latitude to drop the project or to shunt it over to some newly-hired employee, even though that is the temptation. As a result, the firm may end up resenting having to do the consulting project

which usually becomes very apparent in the finished product.

In addition, although consulting can provide a raised profile, it might not be the right image that a firm wants to project. Many developers have low regard for consultants and, in general, across all industries consultants are not held in the highest esteem. During the recession in the early 1980's it was very difficult to find any white-collar workers in Northern California that were unemployed. They all claimed to be consultants.

Boston Mariner's involvement in one of the premier projects in Boston provides the firm with the best possible opportunity to establish an excellent profile for itself. Considering the unanticipated demands that the Pier 4 project will be placing on Boston Mariner, the firm should not get involved in consulting projects.

Other Development

Boston Mariner should consider other development opportunities in the near-term primarily as a hedge against the Pier 4 project being delayed beyond an early 1988 start date. This delay could typically be caused by the approvals process being extended or by the developer's decision to postpone the start because of market conditions or transportation problems.

Examples of opportunities to pursue include an evaluation of developing one of the other sites owned by the Athanases. These have the obvious advantages of no outlay required for the land and they are easily postponable by events at Pier 4

since they will have incurred only minimal investments at any time prior to actual construction.

Another opportunity would be finding suitable land to buy or option with an intent of doing the actual development after the first phase of Pier 4 was complete or nearing completion. Also, the purchase of an existing building would enable Boston Mariner to build a property management team while avoiding the risk of having to undertake the development.

In general, the opportunities should not place inordinate demands on Boston Mariner. They should be small enough that they would typically require no more than one million dollars in cash equity, although for an exceptional deal a two million dollar cash equity investment could be justified.

The opportunities should also be local for several reasons. One is that it is easier to understand the past, present, and future of a local market than a remote one. In addition, a local regulatory climate is easier to keep abreast of and may be more favorable for a local developer.

Moreover, quick reaction time is facilitated by a local presence. In addition, subjective decisions (real estate development involves quite a few) are often best made with access to a wide range of information. Acquiring this information is far easier in a local setting (it appears that most successful developers feel very ill-equipped to understand an area beyond their own region and thus only develop locally).

Finally, the potential projects should be flexible enough

that they can be left idle without incurring extraordinary costs.

The approach of this development strategy should aid the goals of net worth preservation and Boston Mariner's longevity, with minimal impact on the construction of Pier 4.

Expanding the Staff

Currently, Boston Mariner has Watts as its only professional. The current scope of the effort involved in obtaining the necessary approvals is clearly the work of at least one person. Therefore, there are no resources to pursue the other development possibilities. For this reason an additional person should be added, but they can also be expected to participate heavily in the Pier 4 project, as needed.

The type of person to add should be as much as possible a renaissance person. In any small company, it is an extreme advantage if the first two or three people have sufficient skills to cover for each other and adapt to whatever tasks are at hand. Small companies can not afford specialists and entrepreneurial environments require the creativity that may more often be found in non-specialists.

The addition of one person should definitely aid the goals of building Pier 4 and ensuring a future for Boston Mariner. By representing more resources on the Pier 4 project, this person also reduces the risk of a catastrophe which also aids the preservation of the Athanases' net worth.

Chapter VI

Summary and Action Plan

The final step in producing a five-year business plan for Boston Mariner is to provide a set of suggested actions that should take place. However, before describing the actions, a recap will be provided of the other elements of the business plan.

Summary of the Business Plan

The primary goal, and mission, of Boston Mariner is to develop the Pier 4 site, but this development is subject to the constraint of not putting the Athanases' net worth at extreme risk. A secondary goal is also for Boston Mariner to become an ongoing development entity which would exist beyond the completion of the Pier 4 project.

The Pier 4 development, as presently conceived, will be comprised of office space, a hotel, condominiums, and a small amount of retail space. However, the general market for the first three uses appears to be softening.

The office market will probably suffer from a supply that is growing faster than the number of available employees that can occupy it. The hotel market also looks as if it could suffer from severe oversupply, and the condominium market will probably vary based on location and price.

Fortunately, the Pier 4 location is very good in terms of long-term esthetics since it has excellent views, is on the water, and has a world-famous restaurant in its midst. In

the near term it suffers from being difficult to reach and from being in a wasteland. These will be corrected once transportation is improved and other development takes place in the area.

The Pier 4 development also has a good set of amenities such as underground parking, boat slips, and excellent design. Overall, because of the esthetics and the amenities, Pier 4 should be able to do well in the office market. Success for the hotel may be difficult to achieve, and the condominiums may suffer to some degree because of a potential oversupply caused by the Fan Pier development.

Despite these problems, the project can prove to be successful, in general. However, Pier 4's large size creates another set of problems, which also have to be overcome.

A massive amount of financing will be required to construct the project and to provide a cushion against contingencies such as construction overruns and a soft market during the lease-up and sales stages. The project's size and profile has also helped to create the most arduous approvals process, to date, for any development in Boston and its size has exhausted the personnel resources at Boston Mariner

Boston Mariner, as a developer, benefits from a good team of people comprised of Watts and the Athanases, but they suffer from a lack of experience. This inexperience becomes even more significant because of the project's size.

By entering into a joint venture arrangement with another developer, Boston Mariner can gain some additional expertise

and also some increased financial strength. Boston Mariner also needs to examine other development opportunities as a precaution against the Pier 4 project being delayed because of a protracted approvals process or because of a bad market. To explore these opportunities and to continue with the effective management of the Pier 4 project, Boston Mariner will also need to add additional people.

Action Plan

Listed below are several suggested actions that Boston Mariner should take prior to the start of construction of the Pier 4 project. Two different time schedules are proposed.

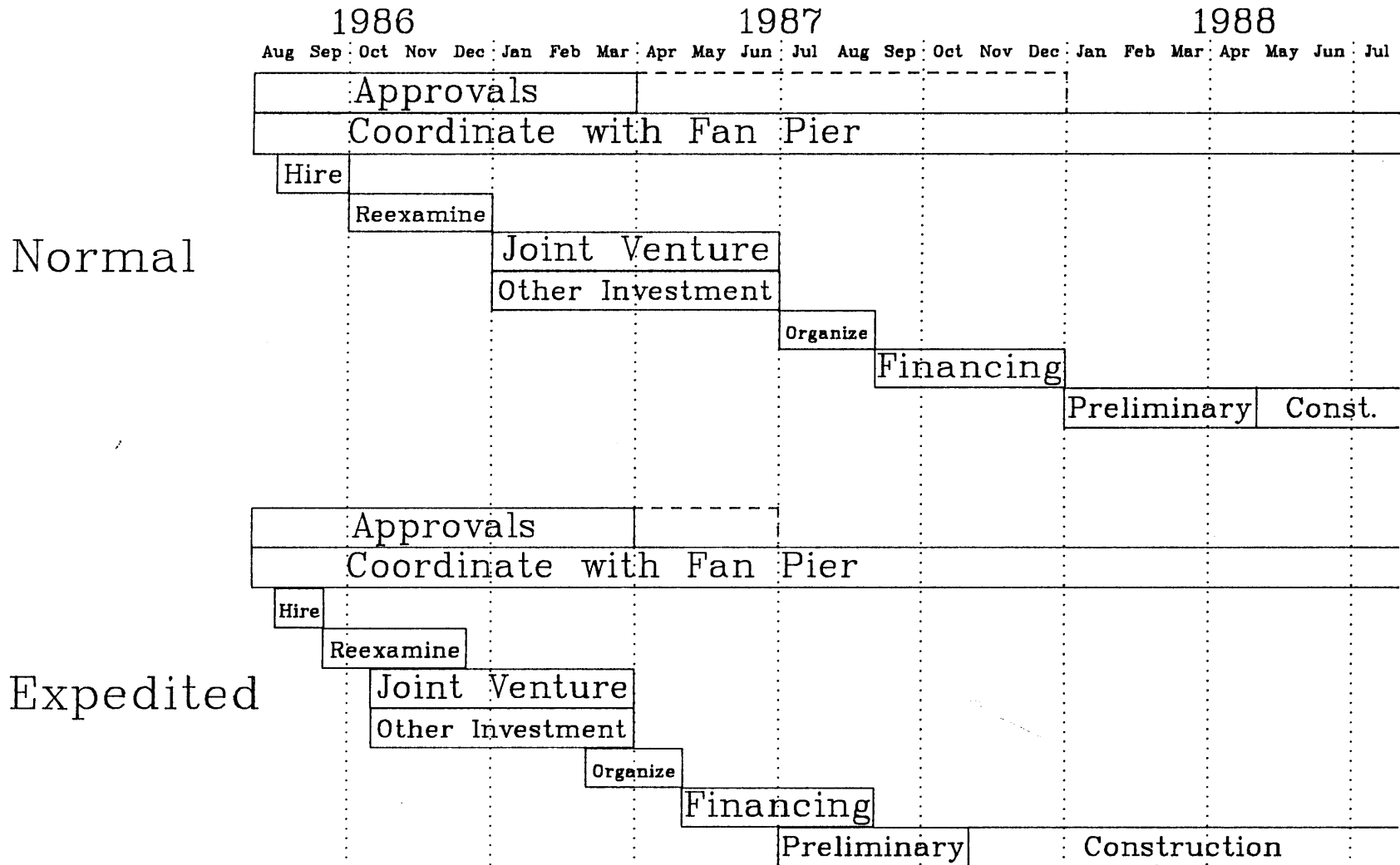
A "normal" time schedule provides estimates of the length of time that should be typically allowed for the various tasks. However, this schedule would result in construction beginning 6 months later than the currently desired start date of November 1987. Therefore, a very aggressive "expedited" time schedule is also provided that is capable of meeting the existing time constraints (see Exhibit 2).

Once construction has begun, almost all of Boston Mariner's time should be spent on Pier 4.

Proceed with the Approvals Process

It is very important, and seemingly obvious, that Boston Mariner should continue to seek the necessary approvals for the construction of the Pier 4 project. Having the approvals in place to build this project greatly increases the value of the site and improves Boston Mariner's bargaining position with any future partners.

Exhibit 2 Action Schedule



As mentioned earlier, the major approvals that are still needed are from the BRA, EOE, and DEQE. The implementation of this action should continue to be done by Watts and the Athanases. It is expected that this process will take from mid-1986 through at least the first quarter of 1987.

However, the process could take substantially longer. The transportation problems mentioned previously may force approvals to be withheld, for an indeterminate amount of time. In addition, DEQE has indicated concerns about whether the project has sufficient public facilities, and whether the project will have adverse wind, shadow, and visual impacts on the public users.

These issues serve to underscore the possibility that the project's start date may be delayed well beyond the hoped for date in November 1987.

Hire an Additional Employee

The approvals process by itself can absorb all of Watts's time. However, there are several other proposed actions which should be taking place concurrently. The alternative to hiring an additional person would be to hire an outside consultant (or consultants), but it is very difficult for outsiders to match the level of commitment or sense of perspective of a full-time person who will be hopefully on board for five or more years.

While it is appropriate to hire specialists for certain activities such as hotel design or retail strategy, the day-to-day management activities of Boston Mariner should be

accomplished with an internal staff. This suggestion recommends only one person initially, since the anticipation of a joint venture partner mitigates the need for additional employees in the near term.

The person to be hired should be hired as soon as possible without waiting to determine whether the approvals process will be ultimately successful; there is more than enough for the person to do. The person should be hired primarily by Watts since it is critical that she and the person can work as an effective team. As mentioned earlier, the person should have a broad range of skills since it is important that he or she can accomplish the wide variety of tasks which need to be addressed in a small firm.

This person should be hired by the end of September 1986.

Reexamine Entire Project

The orientation task for the new hire should be to reexamine the entire Pier 4 project, especially in terms of financial risk, and to prepare a worst case scenario along with suggested alternatives. The accomplishment of this task requires that the person be "brutally honest."

In many companies there is a natural checks and balances system, often performed by the marketing people being optimistic and the finance people being pessimistic. Boston Mariner has naturally been in the marketing mode which is what is needed for undertaking the approvals process. Eventually, Boston Mariner would face financial scrutiny when they sought

funding, but they are better off if they first internally address any difficult issues.

The preparation of this scenario should involve a very detailed look at the market. The alternative proposals could include a change in the program, such as eliminating the hotel. Or, they could consider a change in timing such as delaying construction until the Northern Avenue bridge and at least one other transportation improvement was scheduled to be built.

As it is, the Fan Pier ground lease does not require that construction begin before the end of 1988. The Fan Pier developers may, in fact, ultimately choose to delay their start until then as a way of reducing some of the absorption and transportation risks that they face.

This evaluation should be completed within three months after hiring the person.

Find a Joint Venture Partner

For a number of reasons listed earlier, a joint venture partner is needed to make the project viable. Most likely, the examination of the project will indicate that Boston Mariner should continue to pursue its development. In that case a joint venture partner should be sought immediately.

Any developer who is worthy of being a partner of Boston Mariner (i.e. experienced, successful, and well-financed) will have ideas about the program and a myriad of other issues such as design details, specific retail tenants, amenities, et cetera.

The sooner this partner can be involved, the sooner Boston Mariner can benefit from the partner's expertise. In addition, if the project continues too far along, some otherwise ideal candidates may not be interested in the development either because they feel that there are some problems that would be difficult to redress or because they feel that the project would not have their imprimatur.

Once a candidate is found, the arduous task of negotiating a joint development agreement remains. While, the new hire can be instrumental in attracting and evaluating potential candidates, the actual negotiation would require a team of Watts, the Athanases, and the new person.

Normally, this process should take six months and would begin after the reevaluation of the project had taken place. However, under the expedited schedule, the search for a partner would begin in mid-October, one month after the new person arrived.

Explore Other Investments

Concurrent with the search for a joint venture partner, the new person can also examine other potential development opportunities for Boston Mariner. The type of opportunity and the criteria that should be used have been elaborated on earlier.

However, the search should start with the Athanases' site at the General Glover House in Swampscott. The surrounding area has had a series of moderately-priced (approximately \$150,000 per unit) condominiums built and the Athanases feel

that the market might be able to support a more upscale development. This should be examined, as well as determining whether there are development prospects at Anthony's Cummaquid Inn in Yarmouthport on Cape Cod.

In addition, other small (\$5 to \$10 million) development possibilities should be investigated during the first half of 1987. The objective is to provide Boston Mariner with alternatives if the Pier 4 project is delayed.

Coordinate with Fan Pier

The coordination with the Fan Pier developers needs to be improved. It could wait until after the reevaluation of the Pier 4 project is complete or even until after a joint venture partner is found.

However, the two projects have been inextricably linked in both the approvals process and in the minds of the general public. In addition, they share a prominent (and currently isolated) location at the mouth of the Fort Point Channel. Therefore, they can either complement each other or compete with each other.

To date, they have cooperated on the marina, and they are considering coordinating their retail leasing and some special events. Nonetheless, the phasing of the two projects could create problems for both of them by releasing too much space on the market at once, as may happen with the condominiums. Even their respective programs, such as whether a hotel is needed at Pier 4 should be discussed openly.

Therefore, improved communication and cooperation between

Fan Pier and Pier 4 should be given a high priority. The people to implement this are Athanas Sr. and Watts and it should be initiated immediately and be ongoing.

Create New Pier 4 Development Entity

Once a joint venture partner is found, a new development entity should be created by merging the resources of Boston Mariner and the joint partner, as appropriate. The issues involved were discussed earlier. This new entity should be in place within 30 to 60 days of an agreement being reached. The primary organizers of this entity should be Watts and her counterpart within the partner's firm.

Find Financial Partner and Subsequent Actions

Once the new development entity has been formed (hopefully, sometime around September 1987), Boston Mariner and its partner can proceed with a united front in seeking the construction and permanent financing that will be needed for the project. It should typically take four months to reach a point where the developers would feel comfortable beginning preliminary construction. Under the expedited scenario preliminary construction might begin after two months using the developers' own funds, but this naturally involves more risk.

Overall, the implementation issues (personnel and timing) for the financing activity and all subsequent ones such as construction management and sales and leasing have to be resolved based on the capabilities of the partner and the conditions in the marketplace. As an example, a mortgage broker will probably be needed in any case because of the

size of the project, but the need for a real estate broker for the condominiums will depend on how hot the market is.

Chapter VII

Conclusions

For a start-up development company, Boston Mariner is certainly atypical. Their management structure is very unusual since all of the ownership rests with individuals who are not full-time with the company and who do not have prior training or experience in real estate development. Correspondingly, the firm has one full-time professional and she has real estate training, but no development experience and no equity.

Added to this set of already unusual circumstances, is the nature of Boston Mariner's first project. Its size is massive and its scope is mixed-use so it requires a set of skills that would probably challenge the largest and the most experienced real estate development firms. If the Pier 4 project is successfully completed, the individuals associated with it might realistically never find an "encore" for this development.

In addition to its unique proponents, the project should also be considered in the context of the three factors that are currently being touted as the most important characteristics for a development: location, timing, and staying power. The location is currently difficult to reach and sits on the frontier of Boston's downtown. However, the site's waterfront, views, and eventual proximity to the downtown provide it with an aura of "can't miss, eventually."

It is the "eventually" that makes the timing so important. This project requires a significant amount of infrastructure improvements and it also has to overcome or at least compensate for its location in a desolate wasteland. These efforts are economically beyond the capabilities of developers; they need the help which can typically be provided by a hot real estate market. However, the Boston real estate market now appears to be cooling down on most fronts.

Moreover, projects of this size take so long to bring to the market because of approvals, financing, and construction that it becomes extremely difficult (if not impossible) to predict the market that will be awaiting the project as it completes its phases. Therefore, the staying power needed to await the hot market becomes critical, but Boston Mariner does not have sufficient financial resources to provide this.

Despite the problems of a premature location, softening market, and not-deep-enough pockets, Boston Mariner can still have a good chance at completing a successful project. Two key actions are required: finding a joint venture partner and reassessing the timing and phasing of the project. Following those two steps could make Boston Mariner a classical success story, but with a very non-classical start.

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