This bid for one of Boston's largest office towers shows how the value hits keep coming

One Lincoln skyscraper's $400 million offer at foreclosure auction follows $1 billion refinancing

The former State Street Financial Center was put up for auction earlier this year after its former owner failed to recover from the loss of its anchor tenant. (CoStar)

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One of downtown Boston's marquee office towers has emerged from a recent foreclosure auction in a deal that showcases declining prices.

BDT Capital Partners, the investment arm of merchant bank BDT & MSD Partners, alongside joint venture partner DivcoWest scooped up the former State Street Financial Center tower at One Lincoln St. for $400 million after submitting the sole, and therefore winning, bid for the more than 1.1 million-square-foot skyscraper.

The offer landed about three years after former owner Fortis Property Group refinanced the property for $1 billion, establishing a high-water mark from which its valuation has since dropped considerably.

Both DivcoWest and BDT were the primary lenders behind that 2022 refinancing package, which included more than $200 million to put toward leasing costs and wellness-focused capital upgrades aimed at attracting prospective tenants. As such, the two parties were able to submit the credit bid that ultimately won them the 36-story tower.

While auctions aren't as clear about a building's value as a more straightforward sale, the One Lincoln deal echoes the challenges both Fortis and the property have faced in rebuilding its pre-pandemic occupancy.

The New York-based investment firm acquired the tower for just shy of $900 million back when it was fully leased in late 2006.

Filling the losses

Shortly before the pandemic, however, anchor tenant State Street Corp. decided to relocate its headquarters to the One Congress tower that finished construction in 2023. The global financial services firm officially moved in shortly thereafter, leaving Fortis with a roughly 750,000-square-foot gap to fill at a point when most tenants were looking to downsize or altogether offload their real estate footprints.

The firm was able to land a 250,000-sqaure-foot deal with HarbourVest Partners to backfill some of State Street's now-former space. However, even with the private equity firm slated to move in later this year, the One Lincoln tower is still less than half leased.

What's more, coworking operator WeWork has shrunk its footprint in the building from nine floors to its current three, and the new deals the building has been able to land over the past couple of years have all been for less than 26,050 square feet of space, according to CoStar data.

Heavily discounted acquisitions are part of a theme that has played out across the nation, as lenders appear to have hit a new level of anguish in their attempts to get financially stressed properties off their books.

The combination of depressed demand, stagnant leasing and the ongoing effects of flexible work has helped push the national office vacancy rate to a record high of nearly 14%, according to CoStar data. Tenants collectively handed back upward of 65 million square feet last year, boosting the total to more than 210 million square feet of move-outs since the start of 2020.

Those pandemic-induced factors have been exacerbated for a number of property owners across the country, and some — especially if they're facing maturing loan deadlines or mounting expenses — have been eager to offload underperforming properties, even if it means closing a deal at a deep discount to their initial investments.

In markets such as Nashville, Tennessee, for example, sellers have faced a challenging pricing environment as the region's office vacancy rate has more than doubled since 2020, according to CoStar data.

Earlier this year, private investment firm Wheelock Street Capital late last month finalized deals less than a week apart to offload the Philips Plaza office tower and a two-building office portfolio across a pair of Nashville transactions that represented a combined loss of about $120 million. While office landlords are eager for valuations to bounce back from pandemic-era lows, the dispositions underscore the deeply rooted challenges many will face in landing prices that come close to resembling their own initial investments.

In Denver, large firms such as Shorenstein Properties and TerraCap Management have handed high-vacancy properties back to their lenders as leasing activity remains far below pre-pandemic levels. That has meant lenders, many of which have no interest in becoming office landlords, have slashed pricing expectations to close deals and get the properties off their books.

New post-pandemic reality

A similar trend has unfolded in Boston, where the city's vacancy rate has spiked to a record-high of roughly 14%, according to CoStar data. Combined with a slew of recently completed developments, the lack of leasing activity has postponed any sense of post-pandemic rebound as landlords and developers compete over a severely constricted tenant pool.

If a silver lining exists, however, it would be one to BDT and DivcoWest's benefit.

Aside from scoring a major discount on the One Lincoln tower, the lenders-turned-owners duo will be able to capitalize on renovation work that is wrapping up ahead of HarbourVest's arrival.

Some of the upgrades include revamped restaurant space, an executive cocktail lounge, rooftop tennis and basketball courts, and a new tenant amenity center.

"We are reimagining the post-covid office environment and One Lincoln signifies the beginning of a new era for workplaces in Boston," Fortis CEO Jonathan Landau said after the firm landed its $1 billion refinancing package. "We both recognized the tremendous demand for luxury office space that is amenitized with unparalleled wellness and lifestyle driven experiences in today's office environment."