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Macromedia arranges subleases that save \$32M

NEWTON — The suburbs may be littered with empty office buildings, but at least one tenant is having remarkable success subleasing its excess space in deals that will save it roughly \$32 million over the next seven years.

When Macromedia Inc., a San Francisco-based Internet software company, acquired Allaire Corp. in March 2001, it assumed the 330,000-square-foot, 10-year lease at 275 Grove St. in Newton that Allaire had signed near the height of the market in 1999 for somewhere in the \$30-a-square-foot range.

As the economy turned, Macromedia was suddenly faced with a large amount of excess space — space that the company, like many others, decided to sublease.

But Macromedia has an attractive mix of first-class space in a first-class building, an ideal location and a landlord that has been accommodating as Macromedia and its real estate broker, Waltham-based T3 Realty Advisors LLC, scoured the market for potential subtenants.

T3 Realty was able to close deals with McKesson Health Solutions LLC, a unit of San Francisco-based McKesson Curl), that subleased 85,000 square feet; UnitedHealthcare, a division of Minnetonka, Minn.-based UnitedHealth Group, which subleased 26,000 square feet; and Gunn Design, which subleased 6,000 square feet for use as its headquarters.

And last week, T3 helped negotiate a 47,000-square-foot sublease with Natick based Rocket Software Inc., a network management and security software firm, leaving roughly 49,000 square feet of space remaining.

The deals already signed will go a long way in saving Macromedia money on space that it wasn't using, and T3 Realty president and CEO Roy Hirshland and managing director Mark Cots are negotiating with other firms interested in the remaining space.

"It represents about a \$32 million sublease value to Macromedia, and obviously, in this day and age of corporate cost-cutting, it represents a great win for Macromedia," Hirshland said.

Equity Office Properties Trust, the Chicago-based real estate investment trust that owns the building, was attentive and helpful during negotiations — even though Equity gets paid whether Macromedia fills the space or not, Hirshland said.

Macromedia helped itself by understanding the situation it was in and doing what it needed to in order to get deals done, Hirshland said.

While Macromedia decided not to spend time negotiating rents that were a couple of dollars higher, the company by no means gave the space away, he said.

"We subleased 165,000 square feet, and I'm absolutely confident we did not give space away," Hirshland said. "We were not the lowest cost alternative for these companies. We did not buy any deals."

While rents varied among the building's subtenants, Rocket, which is relocating and expanding from about 20,000 square feet in Natick, is paying somewhere in the \$20-a-square-foot range, said Rob Walles, a vice president and partner at CB Richard Ellis/Whittier Partners, which negotiated the deal for Rocket.

"Because of the anemic demand, you do hear of deals in the teens where you cut your losses and run," Walles said.

Rocket, he said, wasn't just looking for a good deal, but a signature building in a good location. Part of Macromedia's success at 275 Grove, he said, has been because of its priority of getting deals done over maximizing profit.

"They knew where the market was," Walles said. "They made the deal where they thought they had to instead of sitting another six or 12 months to get another dollar or two. I think that's why they're doing deals."

James Morgensen, vice president of facilities, real estate and services for Macromedia, said the sublease rents are averaging in the mid-\$20-a-square-foot range — meaning Macromedia is recouping about two-thirds of what it is paying, compared with its recouping only one-third elsewhere in the country.

"The rates that we're getting for these spaces are really what the market is," he said. "We've been very realistic about what's happening in the market. We're not holding out for the very last dime in every one of these deals."