

AT LARGE

## Trading spaces

By Scott Kirsner, 8/5/2002

The fortunes of the tech community are reflected in the real estate market. When the first @Large column appeared on this page 21/2 years ago, it was about how new office successfully courting Internet companies, taking advantage of the tight Cambridge office market. That column contained this line: "Office space - not server space - is chief among the concerns of Boston's Internet CEOs, whose companies are growing at rates that often surpass 100 percent a month."

Remember when? Things are different now. In 2000, less than 2 percent of Cambridge office space was empty; today, more than 20 percent is. But talking real estate with entrepreneurs and realtors still provides a clear sense, as it did back then, of how the local tech landscape is changing.

**Going home again** We've heard a lot about newly unemployed, post-collegiate dot-commers moving back in with Mom and Dad. But what about spinoff companies heading back to the safety (and low rent) of their parents' pad?

**Financial Fusion**, which sells software for online banking and electronic trading to customers like **Wells Fargo** and **Bear Stearns**, originally sprang from the Concord offices of database company **Sybase**. CEO **Michon Schenck** took some technologies developed at Sybase and, with the green light from Sybase executives, started shaping Financial Fusion as a standalone company that would be wholly owned by Sybase and might one day go public.

In early 2000, the company was hiring so fast that it needed its own offices. Schenck found space at the Arsenal on the Charles in Watertown, but at what she thought was the pricey rate of \$35 a square foot. (The landlord, **O'Neill Properties**, also wanted equity in her company, but Schenck demurred.)

Roughly a year after moving in at the Arsenal, the company cut back from more than 300 employees to about 150, responding to the slowing economy.

Last October, Financial Fusion moved out of the Arsenal and back into a Sybase building in Concord, cutting the company's real estate costs by about \$10 a square foot. While it's not unusual for a start-up to make a move these days in order to take advantage of cheaper rent elsewhere, it is unusual for one to head back to the nest.

"There's some comfort in going back home for a while," Schenck says. "It's nice to be part of an office park with the parent company. It sends a message that we're gonna be here. We're gonna be around."

The move helped Financial Fusion break even in the fourth quarter of last year, though the company was slightly in the red again in the first two quarters of this year. Schenck says that she and Sybase still hope to take Financial Fusion public, when the IPO market improves. But for now, the company's concerned mostly with survival - and that means lowering its overhead.

**Following the action Groundhog Technologies**, a start-up developer of software for wireless carriers, made a different kind of real estate move - from Cambridge to Taipei.

The company, founded in 2000 by a group of MIT researchers to help the operators of wireless networks handle more traffic without buying more equipment, originally set up shop in Kendall Square. But the company found that wireless carriers in Asia were more responsive to Groundhog's software than those in the US, so the company has been growing much more rapidly there than in Cambridge.

Now, more than 20 people work in the Taipei office, and another handful work in Tokyo, while just five consultants remain in Cambridge - mostly because they are still tied to MIT, doing research or teaching there.

Founder **David Chiou** says he determined that the company needed to be close to its customers if it hoped to survive. "In Asia, customers already had the need for our software," he says, in part because Asian wireless networks must handle not only a heavy load of voice traffic, but must also support text messaging traffic - a feature that hasn't been widely adopted in the US. Groundhog believes it can cut costs for "mobility management" - knowing where you are so the network can route calls or messages to you - by as much as one-third.

The company knows something about keeping its own costs under control. Growing the company in Taiwan, Chiou says, means that "our burn rate is much cheaper. We raised \$1 million in seed funding, and we have not even used that up after two years of operations. We have less than one-third of the expenses here that we had in Cambridge." The company is in the process of raising another round of about \$3 million; investors include **First International Telecom** in Taiwan, a Groundhog customer, and **Marubeni Corp.** in Japan.

Despite the relocation, Chiou, a native of Taiwan, comes back to Cambridge frequently for a dose of US business culture. "It's important for me to stay in touch with friends and other entrepreneurs, and get a feeling for the environment," he says.

**Big company blues** Big companies have their own brand of real estate problems. Many, having carried out major layoffs, are now desperate to shed unused space.

Last week, the Internet services company **Genuity** put an entire building in Burlington on the market for sublease. The building is the company's former headquarters, off the northbound side of Route 128, and it was renovated as recently as 1998.

"It's part of our effort to run our operations more cost efficiently," says Genuity spokesperson **Susan Steinberg**. "We've been evaluating and consolidating our facilities when and where it makes sense."

Like most companies offering subleases these days, there are plenty of enticements: the 291,000 square foot building is already wired for data, the furniture will be thrown in for free, and there's little or no security deposit required. But with Genuity in default on \$2 billion in bank loans and its future uncertain, potential tenants might worry about having to pack up and move out as soon as they've settled in.

That's because it's not entirely clear who would back the lease if financially-strapped Genuity files for bankruptcy. While **Verizon Communications** had promised to cover the lease, there are questions about that promise after Verizon backed away from a deal to take over Genuity late last month.

"This is a building designed for a big tenant. And what big tenant would want that kind of uncertainty, not knowing whether they'll be evicted from one day to the next?" asks **Mark Winters**, a senior director at commercial realtor **Cushman and Wakefield** in Boston. "No sensible subtenant is going to enter into a long-term arrangement with Genuity."

And the tectonic plates of Boston's tech real estate scene aren't yet done shifting.

**Roy Hirshland** of **T3 Realty Advisors** in Waltham says, "We haven't seen the end of larger companies giving back space, or arranging termination agreements, like **Akamai** and **Art Technology Group** did earlier this year, to get out of space they aren't going to be able to use." **EMC Corp.**, he observes, has been tentatively offering some of its excess space for sublease - but is wary flooding the market and driving prices down, since the company is such a dominant tenant in and around Hopkinton.

Hirshland and Winters both report that realtors, like those who work in the tech sector, are hoping they've felt the market bottom and pinning for a return to normalcy. "We think things have leveled off," Winters says, "but it'll be a while before we see healthy demand back in the market."

"I'm reminded of the old Purina Cat Chow commercials, with the cat that keeps going forward and backwards," Hirshland says. "The market and the economy seem to lurch forward, then they move back. We're all waiting for that cat to start going forward for good."

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