

Boston Globe - South Station Lease gives T Scan Profit
By Casey Ross - 7/16/2009

State Auditor Joseph DeNucci is investigating the MBTA's lease of South Station to a private real estate firm after determining the transit agency has in some years lost money, even as the building generated \$8 million in annual rents.

The Massachusetts Bay Transportation Authority leases South Station to Equity Office Properties, and the two parties are supposed to split the annual profits. But DeNucci said an initial inquiry found that Equity Office claimed such high expenses that the T got little or no money in the profit-sharing arrangement.

In fact, DeNucci said, the MBTA owes Equity Office more than \$337,000 because its portion of the profits aren't enough to cover expenses the company says it must pay.

Speaking a week after T officials proposed a nearly 20 percent fare increase because the agency's finances are in dire shape, DeNucci said his initial findings warrant a deeper investigation of the arrangement, which has been in place since 1988.

"It is troubling that the MBTA is not realizing any significant revenue from its South Station property," DeNucci said yesterday. "Our expanded review will determine whether this lease is working to the maximum benefit of the MBTA."

Equity Office issued a statement denying it has received a disproportionate share of the revenue from South Station. "It is incorrect to suggest that the contract is to the benefit of the private company," the statement said. "The fact is that EOP has lost money on this asset for the past five years."

DeNucci's report prompted Governor Deval Patrick's transportation secretary, James Aloisi, to ask the T to conduct its own review of the contract.

"The secretary is very concerned with the findings of the auditor's report . . . particularly in light of the MBTA's stated financial challenges," said Aloisi's spokesman, Colin Durrant. "He has already asked for a report on the lease situation, and based on this information, he has asked the MBTA to thoroughly review their agreement with Equity and report back with any and all possible remedies."

T General Manager Daniel Grabauskas defended the T's management of the contract, saying the authority has been bound by terms that were set more than two decades ago by then-state transportation secretary Fred Salvucci, who negotiated the deal with Equity Office's predecessor.

"I have neither a detraction nor a defense of the lease," Grabauskas said. "I didn't enter into it. If other parties want me to reexamine it to see if there is good reason to try to renegotiate the terms prior to its conclusion, then I will do that."

Salvucci agreed to the lease in January 1988 with Beacon Properties Corp., which was acquired by Equity Office Properties in 1997. Grabauskas said the MBTA monitors the expenses reported by Equity Office and that its auditor, Ernst & Young, has never uncovered any problems.

Salvucci was out of the country and could not be reached for comment.

In 1988 Aloisi was one of Salvucci's top aides, serving as an assistant secretary of transportation. Durrant, his spokesman, said Aloisi did not participate in the lease negotiations with Beacon at the time.

Yesterday, MBTA officials provided information showing that between 2004 and 2008, expenses to maintain and operate South Station continued to rise, resulting in operating losses.

Meanwhile, rents from South Station's tenants during the period were declining as the conclusion of the Big Dig construction also meant less business for retailers located in the building.

In that time, the T reported a deficit of \$1.6 million on the South Station lease, while Equity Office netted \$500,000 because its 4 percent management fee compensated for operating losses it suffered running the building.

DeNucci's inquiry was set in motion when the Patrick administration moved three state agencies out of office space in South Station to lower-cost space in the South End. Equity Office tried to block the relocation in an aggressive lobbying effort, contending the moves would cost the T up to \$6.3 million in lost rent during the next three years.

State Senator Richard Tisei, the Senate's Republican leader, requested DeNucci look into the T's contract. The auditor noted that the contract requires Equity to pay the T \$330,000 every year, regardless of whether operations at South Station result in losses or smaller profits.

Equity Office's "claim that the MBTA would suffer a potential income loss of approximately \$6 million is unsupported," said DeNucci's report.

In reviewing financial statements during the inquiry, DeNucci's office became concerned about the lack of money flowing to the T even though South Station was generating \$8 million a year in rental income. The review found that the T has not received any direct payment out of that income since 2003.

But T officials said that's because South Station has high annual expenses from its maintenance costs, real estate taxes, and debt payments.

The head of the transit agency's real estate operations, Mark Boyle, rebutted DeNucci, saying the T has to absorb some of the losses in rental income during the period Equity Office hunts to replace the state tenants that are leaving South Station. The leases for the three state agencies - the divisions of Banks and Insurance and the Department of Telecommunications and Cable - ended in June. They are relocating to a building at 1000 Washington St. in Boston.

DeNucci determined the lower rents at the new location would save the agencies about \$9.5 million over the next 10 years.