

The Boston Globe

BostonGlobe.com

Despite delay, GE committed to new Boston headquarters



From left, Governor Charlie Baker, GE vice president Ann Klee, then-GE chief executive Jeff Immelt, and Mayor Martin J. Walsh participated at a groundbreaking for the new headquarters in Fort Point in May.

By Jon Chesto - Globe Staff - August 09, 2017

Even a company that collects nearly \$125 billion in annual revenue has spending limits.

That was made clear by GE's surprise announcement on Tuesday that it would push back construction of a high-concept, 12-story headquarters building by two years to contain the costs of the roughly \$200 million project.

When GE moved to Boston from Connecticut last summer, everyone from entrepreneurs to nonprofit directors to politicians marveled at the potential for the company's investments and

philanthropy. While GE has proven to be a solid corporate citizen, the headquarters delay is a sobering sign that there is only so much even the state's biggest company can do.

"It's sort of like finding out Superman can be affected by Kryptonite," said David Begelfer, chief executive of the real estate trade group NAIOP Massachusetts.

Ann Klee, the GE vice president who led the company's relocation to Boston, said Wednesday that the industrial giant remains committed to keeping its headquarters here. She said GE chose to split the project into two phases to avoid extra costs associated with having two big construction programs running at the same time.



General Electric plans to renovate two brick building as part of its new headquarters in Boston's Fort Point area. A new 12-story tower is now slated to open in 2021.

Initially, GE planned to renovate two older brick buildings at the 2.7-acre Fort Point site while building the taller structure concurrently. The brick buildings would have opened first. The new building would have completed the nearly 400,000-square-foot campus, dubbed Innovation Point, by mid-2019.

GE has now delayed the opening of the new structure to mid-2021, while headquarters employees working on nearby Farnsworth Street are scheduled to move into the renovated brick buildings in 2019. About 250 GE employees work in the Boston office now.

"We were paying a premium to [complete] the project on an accelerated, or fast-track, schedule. By phasing the construction, we avoid that premium," Klee said Wednesday. "It's two big

complicated projects on one site, so phasing it made a lot of sense.” Klee didn’t provide details about the savings.

“Nothing has changed except the schedule,” Klee said. “We’re going to have the same number of buildings, the same square footage, the same number of jobs, the same public facilities.”

GE’s announcement came less than two weeks after John Flannery took over from Jeff Immelt as the industrial giant’s chief executive. It was Immelt’s decision to move to Boston. Flannery is reviewing all of GE’s operations, including the headquarters plans.

Immelt stepped down earlier than expected. The company is facing pressure on Wall Street, including from activist investor Nelson Peltz, to improve its earnings and the lackluster performance of its stock.

“John Flannery wants to put his fingerprints onto this and do this transition in the most cost-effective, prudent way possible,” said John Boyd, a relocation specialist in Princeton, N.J. “The reality is he sat in meetings with real estate folks looking at the numbers and wasn’t pleased with the course this was going on.”

Landing GE last year was a big win for the Baker and Walsh administrations — and neither the governor nor the mayor publicly expressed concern about the delay on Wednesday.

“I think a lot of people are getting concerned over something that I really don’t think is that big of a deal,” Mayor Martin J. Walsh said. “I talked to the CEO yesterday. He gave me complete, full support that they’re not planning on leaving Boston and they’re looking to grow their company here.”

Begelfer said he understands why GE might divide the project in two. The market for construction workers is tight now, particularly with work underway on Wynn Resorts’ giant casino complex in Everett.

The delay “gives them a little more of a chance to not be hit by the tsunami of construction increases that we’re having now,” Begelfer said. “It’s harder to find [subcontractors]. When it’s harder to find subs, that means the subs are putting in higher prices.”

Suffolk Construction will oversee the new building; Consigli Construction is managing the warehouse renovations. Work has already begun on the older buildings.

In return for \$25 million in property tax breaks from the city over 20 years, GE is required to employ 800 people at the headquarters by mid-2024.

GE can start receiving some tax breaks in 2019. The annual amount grows over time, but GE can benefit from \$5.5 million in breaks through 2024 without any job requirements. After that, the

annual tax break will be \$1.5 million, but it could shrink somewhat if GE falls short of the 800-person goal.

Adam Langley, senior research analyst at the Lincoln Institute of Land Policy, said many cities tie tax breaks to investment or hiring goals. He said the construction delay means GE's break will offset a larger share of its tax bill in the early years, while the campus is incomplete, because the property's assessed value will be lower than if the tower was fully built. "If GE needs to push back its construction timeline, then it seems to me that the tax incentives should be pushed back, too," Langley said. "It just doesn't seem right to be rewarding a company for delaying construction."

GE relocated to Boston about a year ago after an intense competition involving a number of cities and states. In addition to the property tax breaks, officials pledged at least \$125 million in state funds to draw GE here, money that will almost entirely be spent on land and development costs.

GE has pledged to spread its considerable philanthropic dollars around: It promised \$50 million in donations over five years in Massachusetts, with a focus on education and preventing opioid abuse. A spokesman said there will be no change in that.

Immelt leaves with a legacy of having made GE more digitally focused — with an emphasis on software, big data, and artificial intelligence. The move to Boston symbolized that effort. Boyd, the relocation expert, said Flannery could be thinking of a different legacy.

"Just as Jeffrey Immelt leveraged the site-selection process to rebrand GE into a company of the future," Boyd said, "you could say that Flannery is leveraging this last part of the site-selection process to talk about the company being fiscally prudent."