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## COMMERCIAL REAL ESTATE

# BUYING POWER

### Big-ticket sales prices require big down payments

By LOIS WEISS

The large commercial mortgage market has become so dysfunctional that most Class A office sales now require a large cash component — from \$200 million to as much as \$600 million—in order to proceed.

In other instances, institutional partners are swapped out or brought in for recapitalizations and mortgage modifications, with the new equity partner buying into the property and the managing partner hanging on for dear life.

"In '07, when a billion-dollar deal hit the market, you could get \$900 million [financing, meaning] you were searching for \$100 million in equity," says Darcy Stacom, vice chairman of CBRE. "Now you just can get maybe 50 percent financing, so you are hunting for a \$400 million to \$500 million equity check."

Last year, an "equity check" of over \$400 million was needed for the \$485 million sale of 750 Seventh Ave. to Fosterlane Management Corp., handled by Stacom's group at CBRE. "Being part of a Fortune 500 company with a vast global platform allows us more intimate access to the largest global capital sources to get these deals done," says Paul Gillen, a senior vice president for CBRE.

The \$951 million sale of the Starrett-Lehigh Building to RXR, marketed by investment broker Douglas Harmon, senior managing director of Eastdil Secured, required an equity check of \$600 million. At the end of 2010, Harmon represented Jamestown and Taconic in their blockbuster \$1.77 billion sale of 111 Eighth Ave. to Google, which was advised by CBRE.

"The runner-ups for 111 Eighth



were a host of international and domestic investors who we clubbed together as they preferred to team up rather than stroking the entire equity check themselves," says Harmon, who added that his team are very proficient at building "club" deals and/or syndicates whenever the equity requirement on a deal is supersized. "This technique helps to increase the depth of investors on any given large sale."

Over \$300 million was needed for the 49.5 percent recapitalization of 230 Park Ave., which was done without brokers, and the two-stage sale of 1540 Broadway. Over \$200 million was required for the \$601 million sale of 2 Grand Central Tower and the recap of 120 Broadway, which were all handled by CBRE.

Similarly, \$300 million in equity was needed to complete the 95 percent recap of the Toy Building at 200 Fifth Ave. for \$653.4 million by Eastdil Secured, revalued at \$700 million. Harmon's group at Eastdil also sold 620 Sixth Ave. to RXR Realty for \$500 million, a deal which required \$225 million in equity.

In 2011, only four transactions were made for assets with gross val-

| TOP 10 SALES OF 2011  |               |   |                    |
|---|---------------|---|--------------------|
| ADDRESS   | % SOLD        | PRICE PAID  | BROKERAGE          |
| 280 Park Avenue<br>        | 99% recap     | \$1,098,900,000<br>(\$1,110,000,000 new full value) | N/A                |
| 601 W. 26th<br>           | 100%          | \$920,000,000                                       | Eastdil Secured    |
| 1633 Broadway<br>        | 2-stage recap | \$796,250,000<br>\$1,625,000,000                    | Eastdil Secured/CW |
| 230 Park Avenue<br>      | 95%           | \$760,000,000<br>(\$800,000,000)                    | N/A                |
| 200 Fifth Avenue<br>     | 95%           | \$665,600,000<br>(\$700,000,000)                    | Eastdil Secured    |
| 299 Park Avenue<br>      | 49.5%         | \$623,700,000<br>(\$1,260,000,000)                  | CBRE               |
| 55 E. 52nd Street<br>    | 49.9%         | \$593,810,000<br>(\$1,190,000,000)                  | CBRE/<br>Eastdil   |
| 1515 Broadway<br>        | 49%           | \$551,250,000<br>(\$1,225,000,000)                  | N/A                |
| 620 Ave. of Americas<br> | 100%          | \$490,527,491                                       | Eastdil Secured    |
| 750 Seventh Avenue<br>   | 100%          | \$485,000,000                                       | Carlton Group      |

Source: CBRE, Cushman & Wakefield, Eastdil Secured

ues greater than \$1 billion; however, they were all recapitalizations. These included the 49.5 percent recap of 299 Park Avenue for \$618.75 million and the 49 percent recap of Park Avenue Plaza at 55 E. 52nd St. for \$539 million. These transactions were handled by CBRE, and both required over \$400 million of equity.

The other \$2 billion transactions were completed between existing partners without a new third-party capital source. These included the buying out of a partner at 1515 Broadway and the two-stage recapitalizations of 1633 Broadway.

At 1515 Broadway, in a deal conducted without brokers, SL Green Realty Corp. bought out its partner, SITQ, for \$260 million, revaluing the building at \$1.21 billion.

For 1633 Broadway, through an auction process run by Eastdil Secured for the Morgan Stanley-Merrill Lynch/Bank of America joint venture's 49 percent stake, Paramount Group, which already owned the other 51 percent, paid \$980 million (with about \$400 million in eq-

uity), revaluing the building to \$1.8 billion. Once it had acquired the rest of the deal, Paramount had Cushman & Wakefield sell a 25 percent stake to Beacon and obtain some preferred equity from SL Green Realty Corp.

Helen Hwang, executive vice president of Cushman & Wakefield, says that most of the company's 2012 sales pipeline appears to be in the form of structured transactions, with a lot of recapitalizations for minority interests. "The pricing spread is widening between sellers and buyers and that will open up more room for equity transactions," she says.

Another issue for building owners is that many of them are facing looming mortgage maturities. Scott Latham, vice chairman of Jones LaSalle, says, "A lot of transactions do take the form of a recap, because obviously, when there are challenges paying off mortgages, it pushes [owners] into that solution because if those loans cannot be assumed, the only solution is to admit someone into the partnership."

"Prices have now recovered to a

level where there has been a lot of elective selling," says Woody Heller, group head of the capital markets group at Studley, which just represented the Rose family in the sale of their 50 percent interest in One Battery Park Plaza to the Rudins. "The larger transactions are still waiting for the debt markets to recover."

Attorney Gary Rosenberg, a partner with Rosenberg & Estis, P.C., believes it makes for a more stable market when buyers put in more money and lenders lend on a smaller portion of the value of the asset.

However, Rosenberg notes that this approach also presents challenges for buyers and developers, as lenders are wary of placing too much money into one project.

"To get \$900 million in construction financing for 1 Bryant Park, we had to get five lenders," he says. "Today we are talking about each bank putting in \$50 to \$75 million, so to get \$200 million to \$300 million we need five to six banks sitting down with us. No one wants to take that much risk."