

# THE REAL DEAL

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## NO REAL SPARK FROM MACKLOWE RESALES

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As the sell-off of Harry Macklowe's Midtown portfolio moves into the final phase, the industry is assessing what impact, if any, it will have on New York's commercial real estate market.

Industry watchers had hoped the sales of Macklowe's former assets — which were seized in February by Deutsche Bank after the highly leveraged real estate mogul defaulted on nearly \$7 billion in loans — would revive what had been a dormant commercial real estate market here.

However, the turmoil on Wall Street has created something of a stalemate because commercial sellers are mostly unwilling to budge on price, and lenders have been unwilling to finance deals without charging high interest and demanding significant recourse.

Not only did the Midtown buildings, which Macklowe bought in February 2007 from Chicago-based Equity Office Properties Trust, apparently fail to spark a significant round of other transactions; the continued turmoil in the capital markets has also made it difficult to assess whether these deals were fairly priced.

"The general feeling in the market is the assets re-traded at about 15 percent below the original deal," said Dan Fasulo of Real Capital Analytics.

Still, buyers — outside of Boston Properties, which bought the GM Building and three other Macklowe properties in May for \$3.95 billion, with the help of Dubai-based Meraas Capital and a fund managed by Goldman Sachs — have emerged to pick off pieces of Macklowe's portfolio.

According to city records and published reports, all seven of the EOP buildings have either been bought or have potential buyers lined up.

Last month, the New York Observer reported that one of those pieces appears to be going to George Comfort & Sons.

The paper said that the firm is close to an agreement to buy two EOP portfolio buildings, one at 1540 Broadway and the other at 825 Eighth Avenue, a 1.7 million-square-foot tower known as Worldwide Plaza, for about \$2 billion in total. According to Robert Von Ancken, executive managing director and valuation consultant at Grubb & Ellis, the real estate mogul shelled out \$967.6 million for the former building and \$1.74 billion for the latter, for a total of about \$2.7 billion.

The deal is said to be contingent on NBC Universal leasing space for its new business operations center. George Comfort & Sons declined to comment when contacted by The Real Deal.

Meanwhile, San Francisco-based Shorenstein Properties acquired Park Avenue Tower and 850 Third Avenue for a combined \$930 million in June. The agreement values Park Avenue Tower, located at 65 East 55th Street, at more than \$630 million, while 850 Third Avenue is valued at more than \$300 million. Ancken, who provided a price breakdown on what Macklowe paid for each building, said he bought them for \$665 million and \$325 million respectively.

Also, Tower 56, a 33-story boutique office tower at 126 East 56th Street, is reportedly being sold to Chicago-based Transwestern Investment Co. for \$160 million, or about \$18.5 million less than Macklowe paid.

For its part, Mitsui Fudosan Co., a Japanese real estate developer, has agreed to buy 527 Madison Avenue for \$225 million, according to published reports. That was down from the \$234.6 million that Macklowe paid.

And the Paramount Group bought the Credit Lyonnais Building at 1301 Avenue of the Americas in August for \$1.5 billion. Macklowe bought it for \$1.46 billion.

"It was a nice a vote of confidence in the New York market that buyers stepped up [for the Macklowe properties], noted Scott Singer, executive vice president of the Singer & Bassuk Organization. "But it's not catalytic in either direction."

But even with most of the Equity Office portfolio sold, many observers agree that the Macklowe asset sales will stand alone in an otherwise dormant marketplace.

In total, Grubb & Ellis estimated that about \$4 billion in major office properties traded in Manhattan during the second quarter, bringing the first-half total to \$4.9 billion, well below the more than \$50 billion for all of 2007.

Legal and financial experts say the inability to get financing meant that anybody who was selling buildings in recent months was doing so with seller financing and with some urgent need to unload the asset. Under these circumstances, many deals have been trading at prices that are 10 to 15 percent less than full value.

Dennis Russo, an attorney at Herrick Feinstein, cited 360 Lexington Avenue, a 250,000-square-foot Class B office building, as an example. The building was sold to AEW Capital Management for \$90 million, but the firm also assumed a \$38.6 million mortgage. While the price was more than the \$62 million that Himmel & Meringoff Properties paid for the building in 2002, Russo said it would have fetched a better price today if the market were stronger. "If you take those properties and say, 'You go and get your own financing,' the prices would have been different," he said.

Some analysts question whether Boston Properties overpaid for the GM Building. Asking rents in the Plaza District are running about \$160 per square foot, which would arguably justify paying such a high price for one of city's most prestigious, albeit debt-ridden, towers. However, a second-quarter report by Grubb & Ellis questions whether the \$1,455 per square foot paid by Boston Properties was too much, as many of the existing tenants are locked into long-term leases. A Macklowe Properties spokesperson declined to comment. Boston Properties officials were not available for comment.

Ronald Kremnitzer, co-chair of the real estate group at law firm Pryor Cashman, said the Wall Street meltdown could wipe away any momentum in the building sales market in New York. "It's as if you had a flood and you're breathing a sigh of relief, but now the dam is breached again."