

Related's equity secured Hudson Yards

By Alec Appelbaum

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Rupert Murdoch's News Corporation was so central to the Related Companies' original bid to develop Hudson Yards that its proposal was dubbed "Murdochville." And when Murdoch dropped out, Related was forced to effectively drop its bid for the 26-acre waterfront project in February.

While Related lacked an anchor tenant, it did have an investment bank behind it. And the backing of Goldman Sachs gave Related a second chance when Tishman Speyer pulled out last week.



Related CEO Stephen Ross

Related's strong financial backing propelled it ahead of a Durst Organization-Vornado Realty Trust joint venture and Extell Development, said MTA CFO Gary Dellaverson yesterday when the agency named Related the new developer of the massive project on Manhattan's far West Side.

The other surviving bidders, who all tried to re-enter after Tishman left, evidently could not scrounge up as much money as Related could promise with Goldman's backing.

"Extell really worked very hard to address earlier bid problems," said Dellaverson, "but Related understood that if there are difficulties in the market it would still have to perform."

A source affiliated with the Durst/Vornado bid, insisting on anonymity, confirmed that the joint venture did not have outside equity investors but refused to discuss whether it could have matched Related's price. Extell did not return requests for comment.

Related accepted Tishman's deal with only minor adjustments and signed a letter promising to build a \$2 billion platform over the active rail yards only six days after Tishman gave up.

Related CEO Stephen Ross said yesterday that when News Corp pulled out a day before second-round bids were due in March, Related had no time to rework its entire bid. At that time, the MTA was very keen on an anchor tenant, and Tishman had Morgan Stanley as both an anchor and a backer.

Tishman lost Morgan Stanley as a partner, but went through all the negotiations and set a price of about \$1 billion. Then it insisted on the right to walk away with few penalties if the market remained weak.

That left an opening for Related and Goldman, which didn't need the protection that Tishman wanted, to step into a deal that had already been worked out. With Goldman Sachs' rock-solid capital, Related could promise to build the entire rail yards, half of which the city still has to rezone.

Dellaverson, the MTA's chief negotiator, said the agency was impressed with Related's "desire to perform in any economy."

Related built the Time Warner Center on former MTA property in the early 2000s, when economic worries also cast a cloud over big projects.

Goldman's ability to fund for the project means Related will not risk running short of credit or cash during the complex buildout.

"The initial platform will be financed with equity," Related president Jeff Blau said yesterday. "Goldman Sachs is our partner, but we will bring in additional limited partners throughout the process."

Blau told The Real Deal that other investors, also likely to bring equity, would join Related later on in the project. Who they might be remains unclear, but Related has reached far and wide for investors before. In December, Goldman and others, including a fund backed by computer magnate Michael Dell and an Abu Dhabi investment group, sank \$1.4 billion into Related for future big projects.

Related plans 5,500 units of housing, including affordable rents for at least 20 percent of the rentals, plus a hotel and large park connecting to the High Line and Hudson River. Ross said that the multimedia pavilion the developer presented last fall vanished when News Corporation quit the project, but he promised "a great park." The city needs to build a boulevard along the site and the developer must deal with more potential infrastructure delays.

Blau said that "it helps" to have investors in it for the long haul rather than lenders, a conclusion that Dellaverson shared.

"Others wouldn't have made this choice," Dellaverson said. "Steve Ross and the MTA are focused on the long term."

Related has already signed a series of agreements called a conditional designation letter, and has paid \$11 million into escrow, said Jeremy Soffin, an MTA spokesman. Tishman signed the papers for the rail yards' western parcel, but never signed off on the eastern parcel (Related signed for both).

Real estate experts say that rich, far-sighted investors like Goldman Sachs are vital for such a complex project.

"You can never pull off these transactions without deep-pocket and patient capital," said Clarett Group managing partner Veronica Hackett, which is developing SkyHouse near Gramercy Park and built several other towers through an equity partnership with Prudential. "A lot of US real estate capital is in pension funds that managers want to return after five or seven years to investors, to show them the gain. If you look at Hudson Yards, it's a very long-term play and that type of capital is the hardest to raise. That was the significance of the capital raised by Goldman."