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Allianz Buys Stake in Manhattan's 10 Hudson Yards Skyscraper

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Allianz SE completed a deal to acquire a stake of 10 Hudson Yards that values the skyscraper on Manhattan's far west side at \$2.15 billion, marking one of the city's largest real estate transactions this year.

A New York-based unit of Europe's largest insurer contributed about \$420 million in cash, and was part of a group that took on a \$1.2 billion mortgage, for a 44 percent stake of the tower, according to a statement Monday. Allianz bought Coach Inc.'s ownership interest, which the handbag maker acquired for \$530 million in 2013, as well as part of a stake held by the Kuwait Investment Authority. The building opened in May and was the first to be completed at Related Cos.' sprawling Hudson Yards development.

The transaction gives a boost to New York's depressed commercial real estate market, where deal volume this year is forecast to tumble 18 percent from a record \$77.1 billion in 2015, according to brokerage Cushman & Wakefield Inc. Slowing economic growth in China, the slump in oil prices and uncertainty regarding the direction of the Federal Reserve's course on interest rates are weighing on demand for property investments and pushing buyers and lenders to the sidelines.

"When we started speaking to partners about this deal there was volatility, especially on the financing side," Christoph Donner, chief executive officer of Allianz Real Estate of America, said in an interview. "We are seeking to invest for the long term and we are not as concerned about immediate volatility."

'Full Circle'

Allianz, which holds 42 billion euros (\$46 billion) in real estate investments globally, is teaming with Related, Oxford Property Group and JPMorgan Chase & Co. at the 52-story tower. The Munich-based insurer plans to hold its stake for at least 10 years, Donner said.

The deal takes the project "full circle from construction loan to full lease-up and creating a core asset," Jeff Blau, CEO of Related, said in an interview. "It proves the investment thesis of the early investors."

Largest Project

Related is leading what it calls the largest private U.S. real estate project ever on 28 acres (11 hectares) at the site of the Metropolitan Transit Authority's West Side Rail Yard. At 10 Hudson Yards, the 1.7 million-

square-foot (158,000-square-meter) skyscraper is fully leased. Coach, the first tenant to commit to space at the \$25 billion project, moved into its roughly 700,000-square-foot offices at the tower in May. It entered a 20-year lease for its headquarters space, the company said in a statement Monday.

Other tenants will include L’Oreal USA, SAP SE, VaynerMedia and Boston Consulting Group. Another tower rising, 30 Hudson Yards, will have companies such as Time Warner Inc., KKR & Co. and Wells Fargo & Co.

A group of brokers led by Doug Harmon of Eastdil Secured LLC represented the sellers in the Allianz transaction.

Overseas Push

The deal at 10 Hudson Yards is Allianz’s largest investment in a single property, according to Gary Phillips, the real estate unit’s head of acquisitions. The firm began acquiring real estate in the U.S. in 2011 to diversify holdings that were heavily concentrated in Paris and Germany, Phillips said. The U.S. portfolio has since grown to more than \$4 billion in equity commitments, he said.

Allianz is part of a wave of foreign institutions that have been pouring cash into U.S. real estate over the past several years, pushing property values to records. That flow is likely to continue as the fallout from the U.K.’s decision to leave the European Union pushes capital that might otherwise have been deployed in London toward the U.S., according to Blau of Related.

“It goes back to interest rates being so low around the world, and where people can put their money in a safe environment,” he said.

Pricing Concerns

Concern is mounting that the current prices for U.S. real estate are unsustainable. Commercial-property values nationwide are little changed in 2016 after a 1 percent decline in January broke a six-year streak of uninterrupted monthly gains, according to an index from Moody’s Investors Service and Real Capital Analytics Inc.

Related’s project is positioned to weather blips in the real estate cycle, and the appeal of 10 Hudson Yards goes beyond the strength of its tenants, Donner said. The tower is part of a complex that will encompass more than 17 million square feet of residential and commercial buildings. Neiman Marcus plans to open its first store in New York to anchor the retail component.

“This is clearly a landmark deal for us,” Donner said.

