What it takes to build a giant

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The largest private real estate development in US history highlights the need for flexibility amid the evolving CRE cycle, as Related CEO Jeff Blau has witnessed first-hand.

Real estate development is not a ‘one-size-fits-all’ business. From choosing a plot of land, to selecting building materials, to financing assets, the options grow the bigger you build.

Take Hudson Yards, a record-breaking 28-acre site that Related Companies is developing with Oxford Properties Group. It will include 18 million square feet of commercial and residential space, more than 100 shops and restaurants, roughly 5,000 residences and more.

Real Estate Capital spoke to Jeff Blau, CEO and a partner at Related, to get his take on financing a development of such massive proportions. Ultimately, the financing of the buildings includes a mix of banks, capital markets, private institutions, EB-5, fund contributions – and an ability to adapt to change.

“The way you get this to work is by breaking it down into smaller pieces, and you nibble away at it piece-by-piece, and use multiple sources of capital, both debt and equity, in order to get it all done,” Blau says. “We really do it building-by-building; it’s not that we seek to secure this much this month and this much that month.”

The project will take an estimated $20 billion to complete, and thus far $14 billion in financing – roughly evenly split between debt and equity – has been secured.

The necessity to tap multiple sources for a project of this size may be obvious, but speaking to Blau it’s clear that juggling several large buildings at the same time requires particular agility, especially considering the regulations closing in on banks and the lacklustre performance from CMBS this year.

“The plans change every day,” Blau says. “We have to be opportunistic and we have to respond to the market and move based on where capital is available, and where demand for product is. I think that’s one of the things we’re able to do well as a private company – be very responsive and quick in our decision-making.”

Blau calls the 52-storey, 895-foot office tower at 10 Hudson Yards "a perfect case study" for the project, given the array of capital sources that have gone into the financing and the curve ball that came when anchor tenant Coach decided that it would prefer to lease rather than purchase space.

The building was initially funded with a $475 million construction loan led by Starwood Capital, as well as equity financing from an undisclosed sovereign wealth fund and JPMorgan Asset Management. When the plans changed, the sovereign wealth investor, which had invested through an opportunistic fund, needed to exit.

By August of this year, Related had recapped the building with a $1.2 billion securitised single-asset deal from Deutsche Bank and Goldman Sachs, while Allianz was brought in and acquired a 44 percent stake in the building.

Related and Oxford also closed over $5 billion in bank financing for the flagship office tower at 30 Hudson Yards and the Shops and Restaurants, which speaks to the commercial banks' continuing ability to finance large construction projects, but also to the fact that "the amount they are willing to hold has been drastically reduced", Blau says.

But for the first residential building to go up at the site, 15 Hudson Yards, Related went outside of the banking system, calling on the Children's Investment Fund for an $850 million construction loan. Related would later call on the London-based hedge fund for the financing of 35 Hudson Yards, a 1.1 million square feet, 1,000-foot tall mixed-use tower.

Related also raised over $600 million in EB-5 financing to help fund the project's infrastructure in 2014, and they are in the midst of raising another round of capital through this process to help build vertically. Blau calls it "just another part of the puzzle".

The vast range of financing for Hudson Yards shows that, while brick and mortar certainly carries some degree of permanence, the process behind building – especially building big at this stage in the real estate cycle – is fluid.

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