

## Park Avenue Office Towers Mount a Comeback

425 Park Ave. will be the first major office tower built along the famed New York boulevard since 1980

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New York's Park Avenue is on track to see something it hasn't seen in three decades: a major new office tower.

Developer L&L Holding Co. and its partners on Tuesday secured \$556 million from MassMutual Financial Group to fund development of the 897-foot office tower at 425 Park Ave.

Taken with other funding from Japanese investor Tokyu Land Corp., the deal gives the developer the cash it needs to push ahead with the 670,000-square foot-tower in a display of the gradually improving appetite for office construction around the U.S.

"We're fully capitalized and fully mobilized and ready to go," said Robert Lapidus, L&L's president, who has been working on the tower for nearly a decade.

Office development in the U.S. is beginning to pick up steam after years of dragging. With office vacancy rates inching down and interest rates near historic lows, developers and their financiers increasingly are willing to take risks.

In skylines from San Francisco to Chicago to Boston, large office towers are under way. In recent weeks, developers announced they were moving ahead with projects that include Brookfield Property Partners' planned 2 million-square-foot tower in Manhattan and Hudson Pacific Properties Inc.'s planned 323,000-square-foot office building in Hollywood.

Still, office development remains slow by historic standards. Across the U.S., construction-data tracking firm Dodge Data & Analytics estimates developers will start work on 130 million square feet of office space in 2015, up from 107 million square feet in 2014 and 57 million square feet in 2010. Between 1980 and 2010, the country averaged 203 million square feet of annual construction starts.

There are two primary reasons for the slow rebound. Employers have had a restrained appetite for office space even as the economy has improved. Meanwhile, banks have been slow to dive back into the market for construction lending amid tighter regulatory requirements.

"There is still caution being exercised," said Robert Murray, chief economist at Dodge.

For L&L and 425 Park, the road to development was hardly smooth. L&L bought the site in 2006, home to a half-century-old office building with leases that ran through 2015. At the time, the developer's partner was Lehman Brothers Holdings Inc., an inopportune pairing that led to a lengthy period of uncertainty after the bank filed for bankruptcy protection in 2008.

But in 2012, L&L began pushing ahead with plans for a new development on the site after the existing leases expired, a rare move on a street that hasn't seen a major new office tower since 499 Park Ave. was built in 1980.

L&L ultimately tapped renowned British architect Norman Foster to design the building at 55th Street. Financing was uncertain, and preleasing was nonexistent, because the building is aimed at smaller tenants who typically don't make real-estate decisions more than a year or two ahead of

a lease expiration.

In 2013, a postbankruptcy Lehman sold its majority stake to GreenOak Real Estate, a company led by former Morgan Stanley real-estate executives, while L&L continued to plan. About six months ago, L&L and GreenOak secured Tokyu as an equity partner for an undisclosed investment amount.

Then the developers sought a construction loan, ultimately turning to MassMutual affiliate Cornerstone Real Estate Advisors, which makes investments for the insurer. The firm likes large construction loans such as this one, said Jamie Henderson, Cornerstone's head of alternative investments, because rates are relatively high and the company doesn't typically have to vie with many rivals for the loans.

"There's a lot less competition in that space—we think the terms are a little bit better," he said.

Mr. Lapidus, who declined to comment on the interest rate being charged, said there were multiple offers for the loan, which proved easier to secure than it would have been earlier in the recovery.

"Three or four years ago, it would have been much more difficult to raise the capital," he said.

With the loan in place, interior demolition of the existing—now vacant—building has begun, and L&L expects the new tower to be done by 2018. In turn, the company is shifting to a new phase: leasing the building.

Mr. Lapidus said he expected the building would lease for an average in excess of \$150 a square foot, a level that would put it in the upper echelons of Midtown office towers.