

Could the Lever Snap on RFR's Crown Jewel?

BY REY MASHAYEKHI FEB. 1, 2017, 9:45 A.M.



LEVER HOUSE AT 390 PARK AVENUE. PHOTO: SASHA MASLOV/FOR COMMERCIAL OBSERVER.

When Aby Rosen and Michael Fuchs' RFR Realty acquired the ground lease to Lever House, the landmark modernist office tower at 390 Park Avenue, in late 1998, it was more than just a real estate transaction for the pair. Along with their subsequent \$375 million acquisition of the iconic Seagram Building—just across the street, at 375 Park Avenue—Rosen and Fuchs established RFR as a major player in New York City commercial real estate and helped build Rosen's mythology as a slickly coiffed, highly visible, aesthetically minded collector of art and architecture.

RFR's portfolio has swollen in the years since to comprise dozens of office, hotel, retail and residential properties globally, but the firm continues to cite the two Park Avenue trophy towers as its most cherished assets, as well as a testament to Rosen and Fuchs' strategy of acquiring esteemed properties in core markets and adding value through branding and repositioning.

"There's always a break point in everybody's career. My break point was when I bought Lever and then a year later I bought the Seagram Building," Rosen told *Paper Magazine* in June 2016. "When you have the ability to own two of those masterpieces—architecturally historic real estate—you know that you've made it somewhere, somehow.".....

"In the last cycle, we bought a lot of inventory," Rosen told *The New York Times* in 2010. "We have reshuffled all of our debt—we bought some back, refinanced it and pushed up maturity dates to 2015, 2016—and there's not one piece of debt that went back to the lenders." He added that RFR had "bought back and reshuffled over \$3.5 billion worth of notes."

"For anybody who had debt maturing then, that was business as usual during a time that was anything but usual," Andrew Singer, the chairman and CEO of Midtown-based mortgage brokerage the Singer & Bassuk Organization, said of RFR's refinancing efforts around the turn of this decade. "Finance markets were severely constrained because the sources [of capital] were not there, and the difficulties that most people had were driven by market conditions."

Singer and his firm helped RFR obtain a \$60 million construction loan in the late 1990s for the firm's Empire condominium development on the Upper East Side. He described Rosen as "one of the smartest people around" and said RFR has a "fine reputation" in the commercial real estate financing industry.

"Aby's done quite well, even on occasions where he's had challenged properties," he said. "I talk to lenders every day, and I've never heard a negative comment about RFR, no matter what travails they might be going through."

Yet, it remains to be seen whether Rosen and Fuchs will be able to reshuffle the deck once more and keep hold of the property. The fact that they only have a leasehold position in Lever House—as opposed to a fee position, and outright ownership of the asset—means the duo has their work cut out for them.

While an office tower with a similar size and location to Lever House could fetch up to \$1,500 per square foot (or more than \$390 million), a ground lease diminishes the market value of a building, according to one Manhattan office market source not involved in the matter, who spoke on condition of anonymity. And because land values in New York City are so high, "it makes free market rent resets unsustainable for the lease holder.

"The owner of the land has all the power and all the control in these situations," the source explained. "If I owned the land, why would I renegotiate? If he defaults, I get the building." In that case, Omnisperspective could either assume management of the property itself or simply sell the Lever House leasehold on to another investor.

"We do a lot of work on ground lease reset cases, and it is a factor in what you pay for the leasehold and the amount of financing you can expect to get," Singer said of RFR's position at Lever House. "It's one in a basket of risks that investors have to consider. I think he's caught in a difficult time, but knowing Aby, I think he'll figure a way out of it that will work for everybody."

With RFR likely to continue fighting foreclosure proceedings on 390 Park Avenue—at least until they're able to work out a favorable deal potentially salvaging their ground lease—it could be several more months until a resolution is reached. And while Rosen and Fuchs have shown an ability to climb their way out of financial quandaries in the past, it's uncertain how this one will pan out.

"In Manhattan, because of the increase in property values, these disputes have a way of working themselves out," Morningstar's Dittmer said. "This will be a tough negotiation, though."