

Macklowes Sell G.M. Building for \$2.9 Billion

By [CHARLES V. BAGLI](#)
May 25, 2008



The sale of the General Motors Building on Fifth Avenue is part of a \$3.95 billion deal.

A group led by [Mortimer B. Zuckerman](#), chief executive of [Boston Properties](#), a publicly traded real estate company, is buying the [General Motors](#) Building and three other Midtown towers from the financially troubled Macklowe family for \$3.95 billion.

The deal, which had been brewing for months as the Macklowes sought to get out from under more than \$7 billion in debt, is a victory for Mr. Zuckerman, owner of The Daily News, and his partners, [Goldman Sachs](#) and the nations of [Qatar](#) and [Kuwait](#), who paid about \$2.9 billion for the 50-story, white marble G.M. Building on Fifth Avenue at 59th Street. It is the highest price ever paid for an American office tower.

The sale of the building represents the loss of the crown jewel of the Macklowe real estate empire. The travail of the Macklowes and the fate of the G.M. Building have been closely watched by real estate and banking executives, both for the family drama and as an indication of the health of the real estate market.

The deal was struck about 2 a.m. on Saturday. Hours later, Boston Properties issued a press release announcing its purchase of the G.M. Building as well as 540 Madison Avenue, a 39-story building at 55th Street; 125 West 55th Street, a 23-story building between Avenue of the Americas and Seventh Avenue; and 2 Grand Central Tower, a 44-story building between Lexington and Third Avenues.

“We’re thrilled,” Mr. Zuckerman said in a telephone interview. “It is a real commitment to Manhattan and New York City and a real commitment to the future.”

As for the G.M. Building, he said it was a good match for his company’s collection of towers in New York, Washington, San Francisco and elsewhere. “Obviously,” he said, “it’s perhaps the most outstanding building in Manhattan and the country.”

Mr. Zuckerman declined to discuss the partners involved in making the deal. Boston Properties posted a \$165 million deposit. The closing is scheduled to take a place over the next several months.

For the Macklowes, it is a bittersweet transaction. [Harry Macklowe](#), a consummate real estate gambler, ruthless negotiator and talented developer, and his son, William S. Macklowe, had struggled for more than six months to find a solution that would allow them to pay off their debts while retaining control of the G.M. Building. But in the end, they had to relinquish the tower, where they had had so much success since they bought it in 2003 for \$1.4 billion.

Barry M. Gosin, chief executive of Newmark Knight Frank, a real estate company, said: “It’s a cautionary tale. The market doesn’t always go up. You can’t assume that rents will go up 15 percent a year ad infinitum.”

Fifteen months ago, the Macklowes sought to double the size of their holdings in Midtown by buying seven towers from Equity Office Buildings for \$7 billion. But as the subprime mortgage crisis buffeted Wall Street, they found themselves unable to obtain permanent financing and were crushed by \$7 billion in short-term, high-interest loans from [Deutsche Bank](#) and Fortress Investment Group.

Still, it is remarkable that they could orchestrate a multibillion-dollar deal at a time when the capital markets are in turmoil and rival developers were circling their real estate holdings, hungry for cheap deals. The deal for the G.M. Building and the three others was not without some drama. [Vornado Realty Trust](#) and other competitors tried to make higher offers and upend the agreement with Boston Properties.

“We were determined to last five minutes longer than the other side,” Mr. Zuckerman said.

The Macklowes will now be able to pay off a nearly \$1.4 billion loan from Fortress and consolidate their remaining real estate holdings.

Peter Briger, co-president of Fortress, said that the company would continue to hold a small note, \$150 million, backed by the remaining Macklowe buildings. He said he was pleased with the transaction. “They pulled off a coup in terms of the restructuring and an orderly sale,” Mr. Briger said of the Macklowes. “It could’ve been a very litigious and costly process.”

Earlier this year, the Macklowes relinquished control of the seven towers that led to their troubles. Those buildings are now up for sale. Harry Macklowe may not make the next Forbes 400 list, but he and his family will continue to be players in the New York real estate world.

“You can never count Harry out,” said the developer [Douglas Durst](#). “The Macklowes will be back.”

They will continue to own four office towers — at 400 Madison Avenue, 610 Broadway, 1330 Avenue of the Americas and one under construction at 510 Madison Avenue — and three residential buildings, including Rivertower, where Harry Macklowe and his wife, Linda, have a duplex penthouse. In addition, the Macklowes will keep a prime development parcel, the former Drake Hotel site at Park

Avenue and 56th Street.

“Over all, it’s a net positive outcome,” said William Macklowe, 40. “We still have a premier operating platform. We’ll continue to expand on what we have.”

William Macklowe took the lead in negotiating with Fortress and Boston Properties, assembling a team that included Paul J. Ingrassia, who heads [Citigroup](#)’s North American real estate group; Jonathan Mechanic, a real estate lawyer; and Darcy Stacom, the real estate broker from CB Richard Ellis who handled the sale.

“Hindsight gives everyone 20/20 vision,” William Macklowe said. “The ability to harness the past for the future is what makes someone a smarter and better investor.”

William Macklowe has clearly emerged in his own right and will now take the reins of the family company from his father, according to real estate executives who know both men well. Harry Macklowe, who is 71, has always been a fierce competitor, whether it is playing golf, sailing his racing yacht or making deals. He emerged as a developer in the 1980s, when he built the Metropolitan Tower on 57th Street, and what was the Macklowe Hotel in Times Square. Like other developers, he took a drubbing during the recession in the early 1990s, losing several buildings, including the hotel, to lenders.

Mr. Macklowe came roaring back in the mid-1990s with a series of smaller residential and commercial buildings. He ran into trouble with his lenders in 1998 over what was to be his comeback project, a skyscraper at 42nd Street and Madison Avenue.

That was not to be. But in 2003, Mr. Macklowe beat out half a dozen other developers to buy the General Motors Building for what was then a record amount. At the time, many real estate executives said that Mr. Macklowe had overpaid and predicted he would lose the building to his lenders. Instead, his gamble paid off. He designed the glass cubed store for Apple, which has become a popular tourist attraction, and expanded the retail space on the Madison Avenue side of the building.

Like some kind of real estate Icarus, Mr. Macklowe was at the top of his game in early 2007 when he gambled on buying the seven towers, using only \$50 million of his own money and \$7 billion in debt. It was a time when foreign investors, speculators and developers broke records on a daily basis, seemingly willing to pay anything for Manhattan skyscrapers. Their calculations, as well as those of the lenders, were based not on a building’s current rent roll but on an estimation of how much higher rents would go in the coming years.

“It was an aggressive bet at a time when the financing sources would allow it,” Mr. Briger said. “The market changed. There’s certainly been a transition from an easy money environment to a liquidity crisis and what is quickly becoming a credit crisis.”