

## BAGGING IT

*International Paper wraps up a good deal.*

As International Paper bids farewell over the next few months to corporate headquarters in midtown Manhattan, management is unlikely to shed tears. A jig would be more suitable, considering the way that International Paper turned a cumbersome lease into a \$41 million capital gain. IP's method was simple but elegant: Unable to renegotiate its lease at 1166 Avenue of the Americas, the company decided to buy the space and then resell it.

The two-staged deal wasn't risk-free, however. For one, it required a hefty capital commitment from IP just when the paper industry was in one of its cyclical downturns and IP itself was cutting back its staff and operations. Furthermore, the building, owned jointly by NYNEX and Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), is a condominium, a concept that still has not caught on widely in Manhattan's commercial real estate market.

### DIMINISHING ASSET

To James Melican, International Paper's general counsel, the lease was clearly a diminishing asset; he says he saw "no way to afford to stay" after 1995. And that also would mean leaving behind upwards of \$35 million in leasehold improvements—including a full-floor cafeteria, a fitness center, and a video training facility (most of which were featured in an issue of *Interior Design* magazine).

"It seemed most favorable from our standpoint to purchase, then sell to a user-owner and move out," says Melican. As it turned out,

Teachers was more amenable to a sale than to changes in the lease. John Georges, IP chairman since 1985, negotiated a purchase of Teachers' 56.2 percent interest for \$153 million, which IP raised through debt issues. Teachers, which bought the property back in 1978 when it was begging for an owner, booked a nice profit. (Co-owner NYNEX Properties is still there.)

### ENTER FIRST BOSTON

The deal with Teachers closed in late 1985, and Melican and Georges wasted no time. By the fall of 1986, their real estate broker, Kenneth

Laub, had turned up First Boston, which bought out IP last December for \$230 million. That's a \$41 million capital gain even after the \$35 million in leasehold improvements.

When completed in May, International Paper's new corporate headquarters in Purchase, New York, and additional offices in Memphis, Tennessee, will occupy about half as much space as they did in Manhattan. A scaled-down sales office will remain in Manhattan, a few blocks from the present site.

IP's headquarters staff, already cut back sharply to 900, will be about 640 people when relocated in Purchase and Memphis. Though Melican stresses that the move was "absolutely not" a veiled way to lay off personnel—that everybody was given the opportunity to move—broker Kenneth Laub deems the transaction more an attempt to reduce labor costs than a strict real estate play. Whatever the case at IP, it's a concept worth considering—if one office worker requires about 200 square feet, cutting floor space by 250,000 square feet would eliminate 1,250 people, Laub estimates. If those workers earn an average of \$40,000, the company's annual savings comes to \$50 million.

International Paper might have done still better, continues Laub, by holding on for a few months longer or perhaps leasing to a Japanese multinational. But IP entertains no misgivings. "I would say we were very pleased with the way the deal worked out," says Melican. To a company that has been through some rough times recently, a \$41 million capital gain is like manna from heaven.

—S.L. Mintz



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