

# Swiss Bank's trying purchase

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The bargain purchase of First Boston's 222 Broadway by the Swiss Bank Corp. earlier this summer was the solution to a real estate jigsaw puzzle whose pieces seemed destined to fit.

A nearly half-vacant building with an overextended financial services tenant was purchased by an owner/occupier who managed to renegotiate the problematic lease, keep the tenant afloat and benefit from ongoing renovations.

But it wasn't an easy task.

As the bank's real estate broker, Kenneth D. Laub, tells it, the quirky and complex negotiations to purchase the office tower ultimately involved a deal between the potential buyer of the building and the potential buyer of the tenant's business—working around the landlord and lessee.

The 700,000 square-foot 222 Broadway at Fulton Street had been owned since 1985 by a partnership comprised of investor G. Ware Travelstead and affiliates of First Boston Corp. Its prime tenant, L.F. Rothschild Holdings Inc., held what Mr. Laub says was a relatively low-cost lease for 430,000 square feet of space. (A spokesman for First Boston says the rental was market rate).

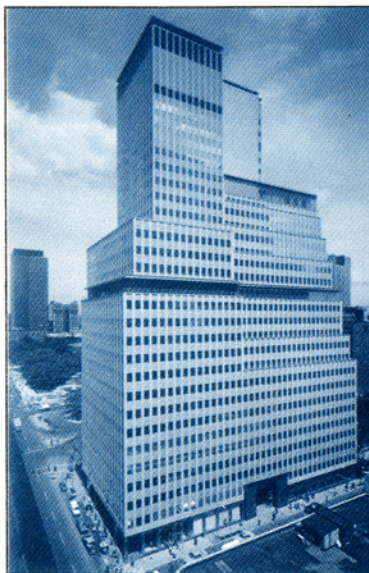
The tenant was nearing completion of a \$26 million upgrade, primarily of the tower's electrical and cooling systems, for which it was due a sizeable reimbursement by the landlord. The tenant's rent was due after it completed the work and the landlord made its reimbursement payment.

Then came the stock market crash. Rothschild laid off 40% of its 2,000-person workforce. It halted work on the building, could not expect to be paid back and was left with an obligation for 250,000 square feet of surplus space and a \$6 million annual rental obligation it could not, and would not, meet.

"222's quandry was that you don't want to be a landlord with a tenant in bankruptcy," says Mr. Laub. But he says the landlord

was unable to agree on terms that could aid the floundering tenant.

A white knight emerged from Kansas for Rothschild in the form of Franklin Savings Bank Corp., which was willing to purchase the distressed investment firm. But the deal was entangled in a Catch 22: Franklin Savings would not purchase Rothschild and guarantee its lease unless the terms were renegotiated, and the landlord could not negotiate with the tenant without that guarantee. "The property, the landlord, the tenant



*222 Broadway was caught in the middle of a tough bargaining game, which Swiss Bank won.*

and the tenant's suitor were locked in a stalemate," Mr. Laub explains.

Meanwhile, he says the building's owner was losing about \$1 million a month in carrying costs, operating expenses, brokerage fees and uncollected rent from 350,000 square feet of vacant space and from Rothschild.

First Boston officials strongly deny the building was a money-loser. They point out it was purchased for \$104 million and sold this spring for \$151 million. But

industry sources say monthly cash flow problems at 222 Broadway cost First Boston \$20 million.

First Boston also contests Mr. Laub's version of the lease negotiations, saying that it was the landlord's decision to allow Swiss Bank and the tenant to deal directly, not a result of an impasse.

Swiss Bank, which finally paid a low \$210 a square foot, set up its purchase deal provisionally. The transaction would only proceed once tenant issues, including the sale of Rothschild to Franklin and the lease renegotiations, were settled.

"The bank in the case was a diamond in the rough," says Mr. Laub, the building's leasing agent until Swiss Bank expressed interest in the property. "It was an owner who could also occupy the excess space and make use of the unique infrastructure installed by Rothschild."

Beginning last fall Swiss Bank sought an alternative to its below-market-rate back-office space, spread over a total of 330,000 square feet in three Manhattan buildings. It had seriously considered locations outside of Manhattan, including several in both New Jersey and Westchester.

"One of our objectives was to keep our cost of occupancy close to what it had been at the World Trade Center (where the bank leased 200,000 square feet) for about \$22 per square foot," says Peter C. McCormick, senior vice president at Swiss Bank. "Another was to lock in our facilities cost over the long term. We also wanted to resolve our infrastructural problems."

But in the end, he says the bank is happy with a purchase price two-thirds of that of comparable properties. The tenant reduced its overhead and got some reimbursement for its improvements. What's more, says Mr. Laub, the Fulton Street area will benefit from the presence of a first-class institutional building.

## REAL ESTATE