



Behind the Swiss Bank Move

Swiss Bank Corporation, one of the world's leading international financial institutions, has purchased 222 Broadway, where it will consolidate its North American Headquarters, New York Branch operations, a regional training center and the headquarters of SBCI, its investment banking arm. It will initially occupy 400,000 square feet of office space and lease the remaining office and retail space to outside tenants.

Kenneth D. Laub, President of Kenneth D. Laub & Company, Inc., served as broker in the complex transaction.

Swiss Bank previously occupied 200,000 square feet at Four World Trade Center; 55,000 square feet at One World Trade Center; and 77,000 square feet at 2 Rector Street. Its search for new quarters began in 1987, following a breakdown of negotiations with the Port Authority regarding a long-term solution to the needed \$45 million upgrading of the technological infrastructure at its facilities in the World Trade Center. With a 1999 lease expiration, no room for projected expansion and inadequate condenser water, power, heat and steam, the Bank began to look for a new center of operations.

Two years earlier, Western Electric had vacated and sold its headquarters building at 222 Broadway. The property remained vacant until early 1987, when a lease was executed for 200,000 square feet with the financial services firm of L.F. Rothschild. A few months later, Kenneth D. Laub & Company was appointed exclusive leasing agent; shortly thereafter a lease for 240,000 square feet of additional space was executed with L.F. Rothschild, thus enabling the building to be committed for 440,000 of its total 723,000 square feet.

The Rothschild firm began an ambitious program of improvements, budgeted at \$26 million which was to be reimbursed by the owners upon completion. By October 1987, 85% of the work had been done, including the construction of new trading floors and the addition of substantial capacity for emergency generating power, air conditioning and condenser water.

When the stock market crashed on October 19, the Rothschild firm was severely damaged. Almost immediately, 800 of its 2,000

jobs were eliminated. Construction of the space was halted, adversely affecting its expected reimbursement. Bankruptcy loomed, and the future of both the company and the property was seriously threatened.

Meanwhile, Swiss Bank was searching for new space, based on unique guidelines and specifications. Although it required state-of-the-art technology, it could neither wait for new construction nor pay more than 10% above its existing occupancy costs (\$21 per square foot) at the World Trade Center. Relocation to the suburbs was considered, but the Bank preferred to remain in Lower Manhattan. Laub studies indicated, however, that leasing facilities in a suitable building in Manhattan was not possible within the Bank's financial and geographic parameters.

As its exclusive broker, the Laub Organization then presented an innovative solution to the Bank's problem: Purchase 222 Broadway; renegotiate the Rothschild lease; inherit the infrastructure the investment firm had built; and consolidate operations within the building. The Bank was attracted by the possibility of remaining in Lower Manhattan, inheriting virtually a turnkey installation and utilizing an ownership position to keep occupancy costs under control.

According to Mr. Laub, "We were uniquely positioned to see the benefits of such a transaction. As leasing agent for 222 Broadway, we were well-versed in the building's characteristics, and were aware of the Rothschild lease's details and of the circumstances surrounding it. Having represented Swiss Bank in leasing its current space years ago, and having served as its consultants on several projects since then, we had a detailed understanding of its operational and financial needs." Under his guidance, negotiations commenced.

Critical to reaching agreement on a purchase was the renegotiation of the Rothschild lease, which landlord and tenant had been unable to accomplish. This renegotiation was further complicated both by the Rothschild firm's deteriorating financial position and its pending acquisition by Franklin Financial Services of Kansas City. (The merger would also be influenced by the outcome of the lease renegotiation.)

Eventually, representatives of Franklin entered the lease amendment negotiations in Rothschild's place. Thus, the principal parties at the bargaining table became Swiss Bank, which did not own the building, and Franklin Financial Services, which itself was not leasing the space.

The Bank purchased the building at approximately \$210 per square foot, two-thirds of the current market price for comparable properties. In addition, Rothschild reduced its space commitment to 200,000 square feet and assented to subordinating control over its newly installed infrastructure to Swiss Bank, which will occupy the remaining unoccupied, newly constructed Rothschild space; the Bank will grant Rothschild \$9.4 million in rent concessions, partially reimbursing the firm for its investment in the property and substantially reducing its short-term overhead.

Among the facilities Swiss Bank will occupy are 350,000 square feet of unusually light and airy office space; three state-of-the-art trading floors; a sophisticated electronic data processing operation; institutionally configured elevator service with each of the 35 cars servicing all floors; full-scale dining facilities; and an innovative training center with a 100-seat auditorium. The Bank will accomplish its relocation without requiring any substantial changes in the work or transportation patterns of its staff. It will have full control over building operations and, perhaps most important, has reduced its long-term net annual occupancy costs to well under \$20 per square foot.

This was a transaction which benefitted all the parties involved. Both 222 Associates and the Rothschild firm cut their actual and potential losses. Swiss Bank gained ownership of a major Lower Manhattan institutional property with a turnkey installation and all the technological infrastructure it needs, plus the electrical capacity for its immediate needs and controlled long-term space expansion. Swiss Bank, through the purchase, will also have the potential for future appreciation.

In addition, several thousand jobs have been kept in the City, and 222 Broadway has been restored to an institutional quality property.