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Perspectives - 120 Wall Street

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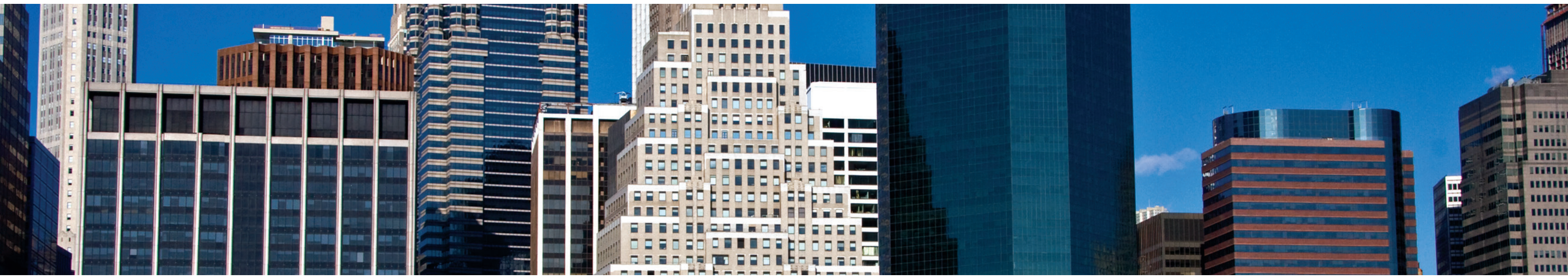
THE ROOFTOPS PROJECT



Perspectives

120 Wall Street

Through a decades-long collaboration with the city and state, not-for-profit tenants occupy office space in a landmarked structure in the heart of Wall Street with the unusual advantage of no real estate taxes. The Rooftop Project's **Alison Snyder** and **Professor James Hagy** interview **Jeremy Moss** and **Camille McGratty** of **Silverstein Properties** at the iconic 120 Wall Street building in lower Manhattan.

RTP: Tell us the history of this project and its designation as a space for not-for-profits.

Jeremy: In 1992, the city of New York, and specifically the Economic Development Corporation [EDC], was seeking to identify a strategy for providing low-cost office space for non-for-profits that were being priced out of New York City, certainly out of Manhattan. In doing so, they were trying to keep [not-for-profits] here, as employers of many people and also as providers of a lot of social services that supplement many of the services the city and state provide. There was clearly a recognition of the importance, from a public policy perspective, of keeping the physical location of these not-for-profits here in New York City. So, at the time, we at Silverstein Properties were selected as the owner to work with the city to structure a program that would provide reduced-cost office space. 120 Wall Street was specifically selected as the location where that would be implemented, in part because the building had a significant amount of availability. So once the program was put in place, the building would actually be able to accommodate a large number of not-for-profits.

RTP: So Silverstein owned the building already?

Jeremy: Yes, Silverstein owned the building already, since the 1980s. The program was very straightforward. Effectively, it provided a real estate tax exemption for all not-for-profits that signed leases in the building. That savings really amounted to a 10-percent or 15-percent reduction in occupancy cost versus what they would pay at another building in the same marketplace. Once the program was put in place, the occupancy of the building became predominately not-for-profits.

RTP: How much of the property did you original intend to be occupied by not-for-profits?

Jeremy: The program actually established thresholds. Working with the EDC, Silverstein Properties established benchmarks. As each of those benchmarks was hit, subsequently the benchmark was raised. So, I think at one point the building had over half-a-million square feet of not-for-profit occupancy. It was predominately not-for-profits. Some 30 not-for-profits have made this their home at one point or another during the course of the program, and a lot of them are still here. A lot of them have renewed. When the program expired in 2009, it gave us an opportunity to sit down and talk about whether there was merit to extending the program. Everybody agreed. Many of the not-for-profits in the building were very vocal about the importance of reestablishing the program. At that time, they were again faced with rising rental rates and concerns that, in the absence of the program, they would have to find alternatives outside the city. The New York State Economic Development Corporation sponsored the program's renewal. That means the program will be in place here for quite some time.

RTP: We consistently hear from not-for-profits that rising commercial rents are increasingly a problem for them across all five boroughs now, not just in Manhattan. Is that your impression?

Jeremy: Many of the secondary and tertiary business districts, whether it is Jamaica, Queens, or Long Island City, or Downtown Brooklyn, which had been good alternatives to Manhattan, are also seeing significant price increases driven by good things. This is driven by the growth of our economy and job growth, particularly in industries that value those locations because of their proximity to the workforce that they are trying to attract. But again, the consequence for not-for-profits is increasing overhead, which is a constant challenge.

RTP: From an administrative or mechanical perspective, the building [120 Wall Street] is still assessed as one tax parcel and then you get a deduction for the tenants who are not-for-profits?

Jeremy: Correct. The idea is that the benefit flows directly through to the tenants and it is very specific space by space. We report to the city and the Department of Finance exactly who is occupying and how many square feet. Then the tax abatement is directed specifically to that tenant and flows through to the bill. So it really gives them the same benefit that they would have if they owned in a commercial condominium structure, except in this case they don't have to put up all that capital to buy an office space. They are able to have all of the flexibility and benefits of being a tenant under a lease but with the tax benefit you would have as an owner.

RTP: The basic components, other than the tax exemption, are the same as your commercial tenants? There is a base rent and then a share of operating costs?

Camille: Yes, it is the same.

RTP: In addition to availability, were there other characteristics why his building was selected to work well for not-for-profits, such as its landmark status, or the footprint and the floor plan?

Jeremy: You hit on one of them, which is the footprint. Not-for-profits come in all shapes and sizes. If you look at our rent roll in this building, we have not-for-profits that are on multiple floors and then we have not-for-profits that just need a very small footprint because most of their employees are out in the field providing direct services. I think that the variety of spaces, space sizes, and floor sizes in the building certainly lends it to that kind of use as opposed to a midtown office building on Sixth Avenue where it is 50,000-foot floor plates all the way up.

I would also say access to public transportation is critical for not-for-profits. It is not a surprise that not-for-profit salaries are not necessarily going to justify a car and driver, and you want to have the ability to draw talent from many different places. That's what public transportation allows you to do. Also, if you are having people go out into the field or having people who are recipients of your services come to you, you want to be accessible. It is really the same value to transportation that any private company would have but more amplified.

RTP: Does the mix of not-for-profits make your stacking and planning different than it is at your other properties?

Jeremy: I don't know that is necessarily the case. Camille, you would know if this is true. If you looked at the stack, do you see them gravitating towards the lower-cost base, not the high floors, or anything like that? Or are they pretty spread out?

Camille: They are really spread out. I would say the difference is more on the sales side of the building—trying to target what types of tenants we go after. We are specifically trying to go after brokers that do a lot of work with not-for-profits. Some of the tenants that are in the tower may have signed their leases 10 or 15 years ago. So perhaps you might see them shifting towards other parts of the building.

Jeremy: The leases roll every 10 years [or so], so the market environment when leases come up can vary. At this moment, I would say that the market is really strong, stronger than it has been in the last decade. So sure, if all the leases were rolling, you would see a reshuffling or reorganization of the stack. But given that some of these tenants renewed when the market was not as strong, closer to 2008/2009, they are going to be enjoying their space for a decade or more.

RTP: So the lengths of the leases are similar to normal commercial tenants?

Jeremy: Yes. We see, consistently, the not-for-profits signing long-term leases. I think it is a smart thing for them to do if they understand their headcount. They can really lock in a long-term rate and have some predictability in cost.

RTP: Do you find that not-for-profits think about their footprint and forecast their needs the same way commercial tenants do? Or do they not transact as frequently as commercial tenants, and so may not be as accustomed to thinking about forecasting?

Jeremy: I think those that attend The Rooftops Conference are much better prepared for those types of questions. [The Rooftops Project team definitely blushed here.] But those who seek the advice of a good broker tend to be better able to think through their current needs, their future needs, and structure the rights they need in a lease to get them though a 10- or 15-year period. I think it is critical for not-for-profits to seek out good counsel in everything they do. I would say they have an even greater need to be vigilant in how they spend their funds and make sure they are getting the best value.

RTP: Are the not-for-profits who consider 120 Wall Street typically represented by tenant representation brokers, similar to commercial tenants?

Camille: Yes. Typically 95 percent of tenants who are new to the building and move in for the first time are represented by brokers. Tenants negotiating directly with the landlords tends to happen more commonly when you are doing a renewal, after the tenant has already been in the building for 10 or 15 years, in a long-term relationship with the landlord.

RTP: Some not-for-profits have limited financial reserves, complex funding streams, government funding to a certain extent. Undoubtedly you make an assessment of all your tenants, including your not-for-profit tenants. How do you evaluate the financial capacity of not-for-profit tenants? And how can the not-for-profit best prepare to meet with you?

Camille: We certainly do dig into their funding to understand what type of cycle they are on. Is it annual or multiple years? Those are the types of things we look at. Also, they don't necessarily maintain a large cash reserve. A lot of times we will try to get information about what they are currently paying [as rent], whether it is in our building or elsewhere, and estimate how able they are to pay this new rent. Is it higher, dramatically higher than what they are paying, or is it about the same? We'll call other landlords to understand what it has been like having this tenant in their building. Did the tenant pay on time? We do that type of due diligence before signing a lease with a group we are not familiar with.

RTP: We gather most of your tenants have audited financials. With our audience nationally, many of them don't have audited financials, and that is another barrier to telling their story.

Camille: Well, if they don't have audited financials, they do have tax returns [*Rooftops Team note: often Form 990, solely informational returns*]. So we review one of the two.

RTP: How far in advance of the expiration of my existing lease should I be looking in this market?

Jeremy: It depends on the size of tenancy, but I believe not less than a year if you are a small tenant and even longer if you are a larger tenant. A major corporation that has 7,000 people will start looking at real estate four years before its lease expires. A company that is looking for a single floor may start two years prior to lease expiration. That gives you a sense, because you have to leave yourself time to get educated on the marketplace. Actually, before that, to understand what your needs are. That is where it always begins. What are your needs as a customer? Then the next step is educating yourself on the marketplace, and that involves hiring the right kinds of advisors. Then the next step is the actual selection process. After that, you are going to have to negotiate a lease. You may have to spend some time doing architecture [design]; then you may have to do some construction. You want to make sure none of this is happening on such a compressed schedule that you are sacrificing your opportunity to competitively bid things, to make good choices, and to have the most number of options available to you.

RTP: What if you are working with a small not-for-profit—with or without a broker—that doesn't have experience in programming and evaluating space? Do you have internal capability for that, or what do you suggest?

Camille: We work with an architect who can help put together a layout plan, combined with the construction management team we have. If the tenant is very small, then that may be sufficient. The larger you get or the more sophisticated or complicated the requirements get, the more reason to hire your own architectural services.

Jeremy: We certainly want to make sure that tenants are steered in the right direction. The last thing we want any customer to do is to bite off more than they can chew. We want people to choose the appropriate, responsible amount of office space. We want to make sure they are not left in a bad situation where their space isn't ready on time. It is to our benefit to get involved where we see the opportunity and where there may be a shortfall in the tenant's team.

RTP: If a new or renewing tenant needs or wants to improve the space, would you say it tends to be more modest than the work that might be done for a commercial tenant?

Camille: There are certainly some not-for-profits that are very minimal in their build-outs and try to maintain their money to spend on their programming or whatever the case may be. You see the same kind of variations with a not-for-profit that you might see with a small law firm where all the partners are paying for it themselves and they don't necessarily want it to come out-of-pocket. I wouldn't say that is unique to the non-profit world. Then there are other not-for-profits that have a lot of high-profile guests coming to their space. It might be very important to them to build out a very nice, impressive installation. Again, just like any commercial tenant, there is a wide range.

RTP: Is it sometimes the case that you will provide tenant improvement dollars—a construction allowance or budget—to not-for-profit tenants, just as you would with a commercial tenant?

Camille: Yes, of course.

RTP: Do you as the landlord typically also do the work for this type of tenant, rather than the tenant commissioning its own contractor?

Camille: That is more a factor of how large the deal is. In general, I would say that tenants under 10,000 square feet are more likely to look to the landlord to build the space for them. It might be their only office, and they really just don't have the manpower to manage a project like that. We have our construction management team in house. Frankly, once tenants get to a certain size, it is very common that they take the tenant improvement allowance that the landlord gives them and they build out the space themselves.

RTP: What would you advise a not-for-profit to think about when it is contemplating new tenancy, whether in your building or anywhere?

Jeremy: The first thing to do is get great advice. Get a broker. It doesn't cost you anything. They are paid by the landlord. That is the convention in New York City. So you ought to have someone who can educate you on the marketplace. Because we shop for milk every week, so we know what the price of milk is. We shop for gas every day or every few days depending on what kind of car you are driving. But we shop for real estate once every 10 to 15 years. A lot changes in that period of time, and that is why you really need to have a trusted advisor. You can hire a broker. You can also hire a consultant. There are many people out there who specialize in consulting to not-for-profits on their real estate matters and have a really good understanding of the kinds of programs that might be available for not-for-profits, and the kinds of things that not-for-profits might want to be more attuned to than a for-profit. I think that is number one.

RTP: If I am a smaller organization, do you think I have to worry about being too small of a client when I go looking for advice?

Jeremy: I don't think so. I think most brokers and advisors understand that every organization has the potential for growth. A smart service provider does not turn away a small client, and if they do, then that may not be the service provider for you. You move on to the next.

RTP: Some of these people have pretty interesting people on their boards too.

Jeremy: Yes, and that is an excellent point. Your board can be an avenue to a lot of resources when it comes to professional services, whether it is legal services, financial services, or real estate services.

RTP: As a tenant, can I time the market in selecting and committing to space?

Jeremy: No, you cannot. Larry Silverstein could not time the market. Donald Trump cannot time the market. What you can do is make sure you are always prepared and educated and that you plan in advance. That is the key to being a happy tenant whether you are for-profit or not-for-profit.

RTP: So if I make a commitment and the market softens a little bit, I shouldn't agonize over that?

Jeremy: No, don't look back. You have to analyze it in the context of your business and make sure the costs make sense based on your revenues and expenses, your growth, and your projections for the future. Never take on burden you don't think you can handle.

RTP: Camille, you mentioned the changes to this downtown Manhattan neighborhood over the past 27 or more years in which the program has been in place. How do you see the neighborhood as it is today when you market the building?

Camille: I think it is completely different than it was 20 years ago. The residential population has boomed over the past decade. People want to walk to work, but they can also take the ferry to this building, as it is right across the street. There is a tremendous amount of retail that has opened, particularly surrounding the World Trade Center and over at Brookfield Place, too. It helped make this a destination neighborhood that lives on after 5:00 p.m. There are a lot of cool places to hang out and it has made this neighborhood more attractive to people.

RTP: You mentioned recent renovations to the lobby. Was the dominate presence of not-for-profits in the tenant mix an influence in your decisions about the common areas and the retail space?

Camille: I wasn't here at the time of the renovation. There were some modifications as a result of [Superstorm Sandy], but I would say it was more of a big picture, us trying to be proactive about maintaining our buildings and supporting our brand. We are cognizant of our tenant base when we're selecting the most appropriate retailers.

Jeremy: Having a healthy occupancy in the building with a large not-for-profit makeup allows us to reinvest in the building. I think the amenities and quality of life appeal to not-for-profits and for-profits equally. People want to have a good place to go for lunch. They want to have shops where they can buy the conveniences of daily life. The neighborhood improving and lower Manhattan transforming in general has been a good thing for the not-for-profits that moved here and have been waiting patiently for a lot of that change to take place. They are now really benefiting, and part of that is the renovation we were able to do.

RTP: What was the Sandy experience with this location?

Jeremy: Well, we're close to the water, and that is why we have great river views. But that also means we, like many buildings along the east side of lower Manhattan, took in significant water below grade. We were fortunate. We had only limited mechanical systems that were below grade and exposed to water. There were other buildings that had far more equipment and critical systems in the basement.

Camille: We were the first to reopen after that time. Our staff was basically living in the building during that time.

Jeremy: So what we did was, we moved a lot of those mechanical systems up two levels, and that really puts us in a position where we are protected if there is ever a future storm like that again. I can't say you won't get your feet wet if you're walking along the streets, but the building will open the next day, which was the key difference.

RTP: Was the property affected by 9/11?

Jeremy: Ultimately no, no different than any other lower Manhattan building. I think it took time for people to recover psychologically, to recover in terms of their habits, their commutation, because a part of lower Manhattan was really off limits for a period of time. Not only is life back, but it is amazing for so many reasons: a significant investment by the city, state, and federal government; the commitment of a lot of major commercial stakeholders to the neighborhood; and this incredible shift in demographics that has made Brooklyn and Jersey so important. This has now made lower Manhattan this great strategic location. In many respects, people saw lower Manhattan as this blank canvas where there was tremendous opportunity, whether you were a company looking for lower-cost space, a retailer looking to take advantage of the rapid growth in the residential sector, or a developer that saw an opportunity to take an old antiquated office building in the caverns of Wall Street and turn it into an attractive residential building with great transportation access. It has fostered this transformation in every aspect of real estate and city life.

Alison Snyder (Class of 2018) concentrates her studies on real estate law. She is an associate with the Center for Real Estate Studies and a member of the New York Law School Moot Court Association. While in law school, Alison has worked in the not-for-profit sector, and as an extern for a landlord-tenant firm. Prior to law school, she received a Bachelor of Arts degree in Strategic Communication with a focus in Public Advocacy from Temple University.

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