

# Perspectives. 40 Wall Street, Asian Buyer Accepts a Leasing Challenge

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Correction Appended

"THEY wanted a signature building, but anything over \$100 million they wouldn't touch," said Edmund Yu, who acted as consultant last year to Hong Kong businessmen seeking a major real-estate investment in New York City.

The search led downtown. And last month Kinson Properties closed on the purchase of the long-term leasehold to the distinguished if tattered 1.1-million-square-foot skyscraper at 40 Wall Street. Within weeks, after major new capital investment, the 66-story building is expected to be back on the leasing market. It is 80 percent vacant.

The stage is accordingly set for a new phase in the saga of 40 Wall Street, one of the properties bought in the early 80's by Joseph J. and Ralph E. Bernstein, found later to be acting on behalf of Ferdinand E. Marcos, the late President of the Philippines, and later placed in limbo when the Marcos assets were frozen in the United States.

With the purchase, the new owner is about to resume a rehabilitation and marketing program that was abandoned in 1989, when Citibank halted financing to Jack Resnick & Sons, the successor owner to the Bernstein brothers. After seeking a buyer for 18 months, Citibank held a foreclosure sale last month.

Mr. Yu, who is 38 years old, is president of Kinson Properties, the new owner, which is a subsidiary handling the New York real estate operations of Ocean Voice Industries Ltd. of Hong Kong. Ocean Voice operates in real estate, trading, manufacturing and financial services and has several development ventures in China.

Will its New York venture succeed? The subdued state of the leasing market downtown and the availability of competitive space on base floors without the numerous columns and low ceiling heights that handicap 40 Wall Street suggest that they face a tough leasing struggle. Some estimates of the additional investment needed to attract tenants exceed Kinson's.

But even the skeptics in real estate circles wish them well and voice relief that 40 Wall Street will soon be back on the market under an ownership ready to invest in its future. The purchase reinforces the impression that Asian investors are among the most interested buyers of distressed commercial real estate in Manhattan.

Kinson plans to start construction within three or four weeks on a new \$4 million lobby, running all the way from Wall to Pine Streets in a major reconstruction of what was once a banking floor of Manufacturers Hanover Trust. It will also spend \$5 million to \$7 million more on electrical and mechanical work. And a rental agent will soon be chosen.

Ultimately, Kinson foresees the possibility of investing about \$60 million in the building, much of it for the work needed to improve tenant space.

"WE'RE looking for law firms, accounting firms, security firms," he said, with the

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expectation that base rents will be in the range of \$15 to \$25 a square foot. Is it his intention to seek out Asian businesses specifically? "The answer is no," he said.

The chairman of Ocean Voice Industries is Yick-ng Hui (pronounced Yuck-un hooEE), who is 37. According to his lawyer in New York, Earle R. Tockman, his success in buying the property stemmed in part from his ability to win an extension on a moratorium on land-lease payments to J. Walter Hinneberg, the owner of the land under 40 Wall Street. Mr. Hinneberg has owned the land since 1982.

A clause in the lease required the lessee to maintain building conditions up to a certain standard. A moratorium on enforcement of the clause was granted to Resnick until the end of 1993 at the time of the Resnick purchase in 1989. The moratorium was drawing to a close, given added reason for Citibank to complete a sale that it had decided upon late in 1991.

At the auction sale last month, Citibank bid the auction price up to \$10.8 million when a competing bidder, apparently unaware that he was bidding against the mortgagee, unexpectedly bid for the property. Confident of Kinson's ability to close the deal, Citibank had made a side deal to turn the property over to Kinson at a previously negotiated price, partially related to the auction-sale price. In the end Kinson is believed to have paid about \$8 million, or roughly \$9 a square foot.

CITIBANK had invested almost \$80 million in the property -- \$70 million for the initial acquisition loan to the Bernstein brothers, and the rest in subsequent financing -- when it decided to halt the project. The Resnick interests, it is said, bowed out reluctantly but cooperatively, absorbing a large equity loss.

The search for a new buyer that began 18 months ago was led by Paul E. Pariser and Woody Heller of Jones Lang Wootton, the international real estate firm. Darcy Stacom and William J. Hirschman of Cushman & Wakefield were the brokers for the buyer.

In China, Ocean Voice produces and exports about \$20 million in footwear a year under contract to Adidas A.G. of Germany, Mr. Yu said. In Gwangzhou (formerly Canton), it has completed land acquisition for a 1.6-million-square-foot office complex with residential condominiums. On the island of Macau, it has a 26-story condominium and a 28-story office building under construction.

Mr. Yu placed the value of the land and buildings Ocean View owns in Hong Kong, China and Macau at \$3 billion.

Brokers note that the leasing challenge is imposing. The vacancy rate downtown is about 17 percent in primary space, according to Cushman & Wakefield, the real-estate concern, and in secondary space it is 26 percent.

Brokers report that there are at least 30 full floors available in the downtown market of about the same size as the 25,000- to 30,000-square-foot base floors in 40 Wall Street. And they are in newer buildings with fewer columns penetrating the space, and ceiling heights high enough to give tenants clear space of at least eight-and-a-half feet or even nine feet after the installation of equipment above the ceiling panel.

At 40 Wall Street these large base floors constitute perhaps 40 percent of the building, and most of them are vacant. Finding tenants for these floors is the principal challenge to the new owners.

With its modest initial investment, Kinson is presumably in a position to offer favorable rents to tenants, and ready to hold on for a period of years with the cooperation of the land owner. Some brokers mention figures in the range of \$70 million to \$90 million may be needed to capture tenants. An investment of such a scale is not justified at a time when market rents are in the low \$20-a-square-foot area, they say.

"Right now the market is very depressed," said Mr. Yu. "But Lower Manhattan has its own market niche. We're going forward with a \$15 million improvement project."

Photos: Yick-ng Hui, left (Jack Manning/The New York Times), head of Hong Kong company that bought 40 Wall Street, center, rear, with Edmund Yu, head of concern's subsidiary. Rendering shows lobby renovation plan. (Howard Chin)

**Correction:** June 27, 1993, Sunday An article last Sunday about the purchase of 40 Wall Street referred incorrectly to the buyer's arrangements with the owner of the land. There was no moratorium on land-lease payments for the property. The picture caption with the article misidentified the man at the right. He was Kwai Hing Sen, a director of Kinson Properties, not Edmund Yu, its president.

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