

Real Estate Finance Intelligence

Novel TI Financing Placed For Brooklyn Office

By Samantha Rowan, Editor

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New York-based **Lance Capital** has structured a unique \$44 million tenant improvement loan for a Brooklyn office building. The financing boutique worked with the owners, tenant and lenders to put together a TI loan for the tenant that can be amortized over the course of the lease, said **Richard Podos**, ceo. "In general, no one likes to put money into improvements--not the tenant, landlord or lender. Lenders say that TIs are not accretive to residual value and mess up loan-to-value ratios," he explained.

TI costs are typically spent to renovate and improve a new tenant's space and can include everything from building out the space to furniture and fixtures. Although office landlords will typically contribute a portion of the costs, tenants are responsible for filling out the remainder of the budget. "Everyone is much more conscious of capital. A lot of owners don't have the ability to fund additional TI costs and this is a problem for people getting deals done," Podos said.

The property, 470 Vanderbilt, is owned by a partnership between **GFI Development, Starwood Capital** and **The Carlyle Group**. Earlier this year, the City of New York said it wanted to lease 400,000 square feet of space for the **New York City Human Resources Administration** but wanted to build the TI costs into rent. The lease transaction required the GFI-led partnership to refinance a senior loan led by **CIBC World Markets**, Podos noted, adding that the lender brought Lance Capital into the transaction to structure a TI financing that would not affect the LTV.

CGA Capital Corp. issued the financing, which was structured in the form of bonds tied to the TI loan. The loan is secured by a portion of the rent payable by the HRA, rather than the building, so it does not affect the LTV ratio of the loan provided by CIBC. Bonds tied to the TI loan were issued by CGA and sold privately to institutional investors. The bonds are unrated, but are implicitly guaranteed by New York's A rating. The loan has a sub 5% interest rate.

The market level for TI costs is estimated to be about \$40-60 per square foot but the actual cost is closer to \$100-200 per square foot. "These costs are being put back onto the tenant and tenants hate that. They'd rather use their capital for their core business," Podos said. "A tenant may say, 'I need 50,000 square feet so I'll go and look for second-generation space where I don't have to spend that much.'"

Lance Capital is hoping to replicate the transaction with other tenants. “TI costs impact everything – vacancy rates, valuations and the ability of a landlord to close a lease. To the extent that we can apply this financing methodology, it can help a lot of deals get done,” Podos said. “There are a lot of buildings around the country that are distressed and we can step into fulfill the requirement for TI dollars to help distressed properties.”



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