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From profit to peril on Park Avenue

Lever House faces reckoning as problems converge

By Daniel Geiger

The office building at 390 Park Ave. has a revolving collection of pricey art in its lobby, revered architecture and a who's who of corporate and financial tenants. But its star on Manhattan's signature office corridor appears to be fading as a financial mess embroils its landlord.

The 21-story Lever House is plagued by an $85 million securitized mortgage that its holder, RFR Realty, has been unable to refinance. With the payback of that debt three years past due, the mortgage's bondholders have moved to foreclose and could take control of the property by the third quarter.

While financial crises have befallen prominent Manhattan buildings before, Lever House's problems stand out at a quiet moment in the office market. Vacancy on Park Avenue fell to 10.9% at the end of the first quarter, down from 12.4% a year earlier, real estate services firm Cushman & Wakefield found. Average asking rents have hovered around $90 per square foot, among the highest in the city.

RFR Realty, an investment firm controlled by Aby Rosen and Michael Fuchs, aims to fix the issue. "We are in conversation with the lender and working on a resolution," the company said. "The fundamentals of the building are strong."

CWCapital Asset Management, the special servicer representing the bondholders, would not comment.

A key problem for Rosen and Fuchs is that they don't own the property outright but control it through a long-term ground lease whose rent resets in 2023 and will likely rise precipitously. An evaluation by CWCapital found the $6 million annual sum RFR now pays could surpass $20 million, a price likely too steep for the firm. If RFR lost its ground lease, its $85 million mortgage would be wiped out, leaving the bondholders empty-handed—a major reason why they are moving to take the tower.

Image problem

The perception of difficulties at the property has become a self-fulfilling prophecy. Prospective tenants have begun to steer clear, further eroding finances and likely making the twin hurdles of refinancing the property and extending the leasehold harder to clear. Its second floor—at 34,056 square feet, the largest space in the property—has sat vacant for more than a year. Leasing brokers familiar with availability said tenants won't commit long term to the floor because of the uncertainty over who will control the building.

Any office leases could also be wiped out if RFR can't renew the ground lease and control returns to the Korein family, which owns the land.

"We are now in a limbo period," observed leasing broker Michael Cohen, tristate president of Colliers International. "Any tenant that will want to sign a long-term lease for this building is going to have to spend a good deal of money to fit out their premises. They'll want assurances that their lease won't be disturbed, and right now that's not possible to provide."

Other vacancies could make matters worse. Alcoa Corp. and Arconic, products of a split up of metals maker Alcoa Inc., together lease more than 50,000 square feet at Lever House. But Alcoa Corp. has left for Pittsburgh, and Arconic will depart by year's end. (Neither relocation stemmed from the problems at Lever House.) Their leases expire in 2020, and both have made their space available for sublease, asking cut-rate rents of $68 per square foot—while RFR seeks $175 for the second floor.

Another tenant, Third Point, the investment firm run by hedge fund manager Daniel Loeb, made a deal to move to 55 Hudson Yards. It will vacate 43,000 square feet when its Lever House lease ends in 2023.

Those departures could leave half of the 260,000-square-foot building empty. It is now 13% vacant after years of near full occupancy.

Rosen took control of Lever House in 1999, securing a 99-year ground lease from the Koreins. He paid them $30 million and spent $30 million on needed renovations. In 2005 he refinanced the building with a $110 million mortgage, city records show.

Reaping market-leading rents and paying modest ground rent and mortgage costs, Rosen profited for years. Trepp, a firm that tracks the performance of securitized debt, found Lever House netted about $10 million in 2015. Since the building slipped into default that year, after its 10-year mortgage expired, it is unclear whether Rosen has been required to steer its profits into a lockbox to repay the bondholders. Default has been costly. According to CWCapital's foreclosure suit against RFR, the property has accrued more than $6.5 million of default interest annually on the loan balance for the past three years, inflating the amount Rosen owes bondholders to at least $105 million.

Even if Rosen somehow works out the debt and extends the ground lease, sources said, the drama has set Lever House back in a competitive market. Several office buildings on the avenue, including 280 Park Ave., have been renovated, and a luxury office tower is being raised at 425 Park Ave. A block east, the Saudi Arabian owner of 550 Madison Ave. plans to make it into a luxury office building with premium rents. Upgrades that would keep Lever House at the apex of the market have been impossible, given the circumstances.

"There's a need to keep up with all the investments being made," said David Levinson, chairman and CEO of L&L Holding Co., which is building 425 Park Ave. "There's a new standard being set, and if you don't bring your building into the 21st century, you end up becoming commodity space."

Cohen said a shrewd landlord like Rosen would figure out a way to maintain control of Lever House. "If I were a betting man, I would guess that Aby's name will be on the door for years to come," Cohen said. "But while things are being worked out, the sad fact is that everyone suffers. It doesn't help the bondholders, and it certainly doesn't help Aby that everything is stalled at the building right now."