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Family jewels: Possible sale roils Empire State portfolio

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A charitable trust's possible sale of a massive stake in one of the city's largest commercial real estate portfolios, including the Empire State Building, would be good news for the health, education and other nonprofits that receive the bulk of the institution's donations. But its impact on the other key shareholder, the Malkin family, is far less certain.

The trust, which was set up by legendary real estate mogul Harry Helmsley and his wife, Leona, is exploring a potential sale of its interest in nine buildings that are estimated to be worth as much as \$4 billion. Converting that stake, which sources say is close to 50%, would assist the trust in funding its millions of dollars in annual donations.

But any sale of a major stake in the 8 million-square-foot portfolio carries risks for the Malkin family. Anthony Malkin oversees his family's interest in the midtown properties and acts as their manager via W&H Properties, drawing millions of dollars in fees. A new partner may wish to play a more active role than the trust has.



Buck Ennis

The Empire State Building, worth as much as \$1.5 billion, is the hub of a massive nine-property portfolio. The Helmsley trust may sell its interest, in what is bound to be a long, complex process.

A sale would also end a partnership that dates back to 1949, when Mr. Helmsley sold a small building near Columbus Circle to lawyer Lawrence Wein, Mr. Malkin's grandfather. Together, the duo went on to change the way that real estate is bought in the United States, putting together syndicates of thousands of small investors to fund their purchases.

If the Malkin family buys out the Helmsley stake, or even the majority of it, the family could at last gain full control of the properties. That feat would be easier to manage financially if the building stakes were sold over time. But experts say the Malkins might be able to snap up its partner's share in one gulp.

Access to cash

"The Malkins have a stellar reputation," says Scott Latham, an executive managing director at Jones Lang LaSalle. "I think they would be able to raise money without too many problems."

Discussions about how the Leona M. and Harry B. Helmsley Charitable Trust will extract money from the assets are still in the early stages. Sources say Mr. Malkin and trust representatives have met with bankers from Goldman Sachs and Bank of America, as well as lawyers from Clifford Chance. Spokesmen for W&H, the trust and Goldman declined to comment; officials from Bank of America and Clifford Chance didn't return calls.

Sources believe that both parties in the partnership are attending the meetings, because their agreement likely forbids one to make a major move without the consent of the other.

Unlocking the buildings' value is expected to be a long and complicated process, since each property is owned by a separate partnership that includes numerous junior investors. They don't have a say in the buildings' operations, but they may have the right to object to any significant changes.

"So much of this will depend on the terms of their joint-venture documents," says Mark Edelstein, head of the real estate department at law firm Morrison & Foerster.

One proposal under consideration would be to create a real estate investment trust from the assets and sell shares directly to the public. Observers suggest that the Malkins would much prefer that the buildings remain privately held.

"[The REIT] would be the easiest way for some of the parties to cash out, but the ones that want to stay in can do so," says Dan Fasulo, a managing director at Real Capital Analytics.

He adds that the Empire State Building's globe-spanning fame would undoubtedly drive up the REIT's value. The 2.8 million-square-foot Art Deco tower is clearly the crown jewel of the prewar building portfolio. Experts say that it could be worth as much as \$1.5 billion, especially since the property is in the midst of a multimillion-dollar renovation.

Small fry winnowed out

In the process, Mr. Malkin has eased out thousands of small tenants and replaced them with larger, corporate tenants. In the biggest such move, giant Chinese apparel supplier Li & Fung is close to signing a lease for 500,000 square feet.

Yet for all of its success, the building is still burdened with many long-term tenants that pay low rents. According to a financial filing, the building earned only \$46 million in 2008, the last year for which a full report was filed.

Over time, renovations of all the portfolio's buildings have lured better-heeled companies willing to pay higher rents.

"Now, true quality office tenants will consider the buildings," says Jeffrey Peck, a senior managing director at Studley.

Under the Helmsleys' management, the buildings had fallen into disrepair. Starting in 1997, the two families fought each other in court for control of the properties; the Malkins finally won the last of the battles in 2006, according to Securities and Exchange Commission documents.

Relations between the two families deteriorated sharply after Mr. Helmsley's health failed and Mrs. Helmsley—infamous in the tabloids at the time as the "Queen of Mean"—assumed a greater operational role.

In 1988, the couple was charged with tax evasion. Mr. Helmsley was deemed too sick to stand trial, but his wife spent 18 months behind bars. Mrs. Helmsley died in 2007, and the trust has been slowly selling off assets.

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