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## Risky Venture in Diamond District

By Eliot Brown

At a time when banks are reticent to finance any new buildings in the city, real-estate firm Extell Development says it will begin work on its planned 34-story International Gem Tower office building in Midtown even without a loan to finance its construction.



Gary Barnett is preparing to begin construction on a 34-story International Gem Tower in Midtown.

In recent weeks, Extell executed contracts to buy the steel and the glass curtain wall for the building, company executives said, and they plan to start vertical construction by March.

move on a large, mostly speculative tower at a time when new construction of office buildings has virtually ground to a halt citywide.

Should construction indeed begin—the building has previously moved slower than its developers have pledged—it would represent a risky and unusual

Developers rarely build without loans to finance construction given the high costs and risks. Banks have been particularly cautious in making such loans in the past three years, requiring landlords to have tenants committed to lease major portions of buildings at healthy rents.

Raizy Haas, a vice president at Extell in charge of the project, described the decision to move ahead as a "calculated risk," one that the firm's equity partners had agreed to fund.

The planned development, in the heart of the city's Diamond District, is an unusual project because, instead of leasing space, Extell plans to sell commercial condominiums to diamond merchants and others in the gem trade. Ms. Haas says the building had commitments by tenants for about 150,000 square feet of space, about 20% of the building.



Compared with typical buildings that begin construction in tough markets, that commitment level is low.

"At some point in the process, we're going to go to the banks and get a construction loan," she says. "But being able to have the commitment from the equity

partners allows us to go ahead even without construction."

The pledges of new construction reflect the unorthodox style of Extell, led by Gary Barnett, a onetime diamond trader who is building at a time when many developers believe conditions are far too inclement to justify new construction. This summer, Mr. Barnett began work on a 1,000-foot high-end residential and hotel tower across from Carnegie Hall without a construction loan. He said Abu Dhabi-based Aabar Investment was funding much of the equity for the tower.

Other than that project, now rising a few stories above street-level, there has been a drought of new construction of large projects in the city since the recession hit. Other than the World Trade Center, no major office buildings in Manhattan have seen the start of construction since the fall of Lehman Bros.

This dearth of new projects has been hard on the city's private construction industry, whose volume of business is down by more than one-third from its peak in 2007. The New York Building Congress estimates that there will be about \$9 billion of spending on non-governmental construction projects in 2010.

The Skidmore Owings & Merrill-designed Gem Tower at 47th Street near Sixth Avenue has been in the planning for years. Looking to create a large diamond industry-specific building in the middle of Midtown's Diamond District, Extell has sought to lure firms both in the city and internationally that want modern office space, which is hard to come by in the district.

In May 2009, Extell sought to spark interest with a display of forward progress, and the company began to build out its basement in a pricey bet that tenants would materialize.

But progress proved to be slower than initially expected, as work has mostly been on hold since construction of the basement finished earlier this year. In the meantime, Extell said it rebid earlier contracts in an effort to reduce costs, and it won a new subsidy package from the state for low-cost condo mortgages, on top of a set of tax breaks worth up to \$50 million that were earlier awarded by the city.

Now, by buying the steel and glass for its tower with a pledge to start construction, Extell appears to be doubling down, hoping the show of certainty in the project will bring new buyers.

"We feel comfortable once we start going vertical that we're going to be able to sell more space quickly," Ms. Haas says, adding that some buyers have been waiting to see the tower begin rising. "People have confidence that the project is going forward."