



Lance Capital arranges financing to close 400,000 s/f leasing deal

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An innovation in the financing of large-scale tenant improvements (TI) has helped close a 400,000 s/f leasing deal.

Based on the tenant's rent cash flow and tied to privately placed bonds, the new form of financing was used for the first time and played an integral part in a \$200 million re-capitalization to support the 400,000 s/f transaction.

The financing was arranged by Lance Capital LLC, a firm specializing in tenant improvements funding, and provided by CGA Capital Corp., which structures credit-backed financing for real estate and other assets.

Richard Podos, Lance's CEO, said, "The TI financing is a major development that provides a new tool for borrowers to access a different source of real estate capital by focusing on a tenant's credit in a multi-tenant building."

Tenant improvement funds are the monies spent by landlords for renovations and improvements to a new tenant's space, and are often the key to closing difficult and complex transactions.

The tenant is the New York City Human Resources Administration (HRA), which just signed a 400,000 s/f, 20 year lease at 470 Vanderbilt Ave., which is owned by GFI Development, Starwood Capital, and The Carlyle Group. The project will include over \$100 million in construction work for building renovation and tenant improvements.

The lease transaction required a recapitalization of \$130 million in senior loan financing led by CIBC, and also included the innovative credit-based \$44 million tenant improvements loan arranged by Lance and provided by CGA.

The \$44 million TI loan for GFI was key to the lease transaction and the debt/equity recapitalization. It is unique because it is not secured by the building itself but backed by a portion of the rent payable by HRA under the new lease. Bonds tied to the TI loan were issued by CGA and privately placed with institutional investors; the bonds are unrated, but implicitly benefit from the double-A rating of New York City. All of the transaction elements - the lease, a new equity investment, and the new senior loan syndicate - were triggered by the TI loan and closed concurrently in late September.

"It was a very unique deal structure and is the first time the city has done it," said Steven Hurwitz, vice president of acquisitions and developments at GFI. "Now that they got it done successfully, I expect to see them replicate it."

"A sub-5% rate for TI funding was made possible by focusing on the creditworthiness of New York City, rather than the building's cost of capital or the security collateral value of tenant improvements," according to Mr. Podos, who further added "The financing from the Lance/CGA team provided the owners of 470 Vanderbilt with an extremely attractive low cost, non-recourse

alternative to additional expensive equity or mezzanine capital."

"The combination of Lance's focus on understanding tenant improvements funding in the context of both leasing and finance practices, with CGA's 20 plus years of expertise in credit tenant lease ("CTL") financing structures, allowed us as a team to deliver an innovative and cost-effective TI funding solution that met all of landlord, senior lender, and tenant requirements," said W. Kyle Gore, Managing Director at CGA.

The TI financing structure is widely applicable across many property types domestically and internationally. The Lance/CGA team has already identified other significant opportunities for which this innovative funding solution would deliver a lower cost of capital and enable critical corporate and municipal projects to move forward.

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