Related runs from recession

Mega-developer Stephen Ross now staring down crucial career test

Stephen Ross at Dolphin Stadium in Miami. Ross bought a 95 percent stake in the NFL team in January for a reported $1 billion.

By David Jones

In the boom-and-bust real estate world of the last couple of years, billionaire developer Stephen Ross, the CEO and founder of the Related Companies, cut an unusual figure.

The former tax attorney and 35-year industry veteran is regarded as an old school, buy-and-hold real estate type, who doesn't make a habit of overleveraging himself on the $15 billion worth of real estate projects in Related's portfolio. In fact, when other developers fail, banks come to him for advice on how to help them.

"Everyone holds him in high regard," said Ron Solarz, executive managing director at the commercial brokerage Eastern Consolidated. "Unlike some of his competitors, I've never heard a bad word about Stephen Ross or Related Companies."

While Ross clearly has earned the respect of the industry, some are questioning whether even he may have tested the limits of his success with the redevelopment of the Hudson Yards site on Manhattan's far West Side.

Last May, Related stepped in as the white knight two weeks after the Metropolitan Transportation Authority, which owns the 26- acre parcel, watched its deal for Tishman Speyer Properties to develop the site collapse. In a blockbuster agreement worth $1 billion, Related, the largest residential developer in the city, was granted the development rights.

However, at the beginning of last month, with the economy still crumbling and lending frozen, Related struck a deal with the MTA to delay its closing on the project by a year. In exchange for paying nearly $9 million, Related was able to avoid making a down payment of $43.5 million — and the pressure associated with beginning the project now.

"To any reasonable observer, the fate of Related's plan seems very much in doubt," said Andrew Berman, a member of the Hudson Yards Community Advisory Committee and longtime critic of the MTA's Hudson Yards plan. "Even in the headiest days of the real estate boom, Hudson Yards was a heavy lift. Now it seems like a lead balloon."

Dan Fasulo, managing director of research at Real Capital Analytics, put it this way: "That [was] a difficult and complex project when the market is going great."

Meanwhile, Ross recently told *The Real Deal* that "being a real estate developer today is like an oxymoron. When there's no money, there's no business. So, today to say you're going to go out and develop something, I think anybody who told you that — I think is smoking dope or something."

Ross said he believes that the New York real estate market may not recover before 2011. "Real estate is only a byproduct of the economy," he said. "If the economy is tanking, the real estate industry will go down with it. It's not a separate industry."

Ross refused to address the specifics of Related's agreement with the MTA, but he argued that Hudson Yards must be redeveloped if New York hopes to expand its economy.

"I've never believed in the theory that things will always do well next year because they did the year before," he said. "We're going through a bigger correction than we've had in a long, long time. I guess if there's one thing experience does for you, it teaches you how to survive. I've survived in the past and I'll survive in the future."

Related's roots

In 1962, Ross graduated from the University of Michigan (an institution whose business school was named after him following his $100 million donation in 2004), and later earned a law degree at Wayne State University and a master's degree in tax law from New York University. He founded his company in 1972 under the name Related Housing Companies, and established it as a leading developer of government-assisted affordable housing.

In the 1980s, the company developed residential towers across the city, including the former Parc Place at 225 Rector Square, and expanded the business under the name Related Companies with mixed-use projects in Miami, Chicago and California.

After the real estate crash of the early 1990s, Ross split Related into three divisions: a mortgage finance business; a development unit, with more than $10 billion in projects nationwide; and a property management unit, which manages 21,000 residential units, as well as 1 million square feet of retail and commercial space nationwide.

However, it was the 2004 completion of the $1.7 billion Time Warner Center, the largest construction project in the city since the World Trade Center, which catapulted Related to new heights.

The twin-towered center — a retail, residential and commercial behemoth where Ross owns a penthouse — is credited with helping to restore Columbus Circle's grandeur and spurring billions of dollars in new investment in the area.

Robby Browne, a top residential broker at the Corcoran Group, said Related is one of the rare developers that delivers on its promises in residential real estate.

"I think it's a stamp of approval that so many of the Related people live in buildings they build," said Browne.

David Wine, the company's vice chairman, lives in the Park Imperial, which was also developed by Related and is only blocks from the Time Warner Center.

Recession or no recession, Ross hasn't stopped with acquisitions, both in real estate and beyond.

In January, Ross, who played high school football growing up in Miami, purchased a 95 percent stake in the Miami Dolphins for $1 billion. (The acquisition was not his first in the sports world. In 1988, he bailed out his good friend Donald Trump when Trump got stuck with losses from the New Jersey Generals during the waning days of the old United States Football League.) "It's not like people are going home and going to sleep at 6 p.m.," said Ross, who has a number of struggling projects around the country. "Life's not over. We can make too big of an idea that we're in a serious recession. That's why entertainment has not suffered like [other industries]."

Related is also moving forward on other key projects in New York, including the Gateway Center Mall, which is scheduled to open at the former Bronx Terminal Market in mid-2009. And, the company is scouting locations to acquire and renovate affordable housing units under a partnership with former New York Giants running back Tiki Barber.

The chief executive of Tiki Ventures, Mark Lepselter, said the companies have closed a deal to redevelop 3,500 units in Virginia and North Carolina, and are close to reaching agreements in other markets, including Yonkers, N.Y.

"We felt [Ross] was the best person to guide us," said Lepselter. "Stephen said to us that the real way to earn your stripes in the business was to get into the affordable housing world. He said, 'if you want to learn the business this was the best place to start.'"

Feeling the sting

Still, even Related is beginning to feel the sting of the credit crunch.

Starting in 2006, Related canceled its high-profile Icon Las Vegas and Las Ramblas condo projects, both in Las Vegas, due to high construction costs and weak demand.

In Aspen, Colo., construction partially stalled in September 2008 at the Related WestPac Snowmass Center after $520 million in loans from German lender Hypo Real Estate fell through.

And, like nearly every development company, Related also took a significant hit with its South Florida portfolio, although last year, the chairman of the Related Group of Florida, Jorge Perez, formed a massive fund with Philadelphia-based Lubert-Adler partners to scoop up distressed inventory in the market. In an unusual step, Related has used the fund to buy and resell unsold inventory from its own condo projects, using the proceeds to pay off debt.

Meanwhile, Related owns 13 percent of the struggling commercial real estate lender Centerline Holding Co., of which Ross is chairman. Centerline was suspended from the New York Stock Exchange and was teetering on the brink of collapse in late 2008. Around that same time, Centerline's debt rating was downgraded to junk status after analysts raised concerns over its ability to meet short-term obligations. Related officials say, however, that Centerline's financial struggles do not have a material impact on Related.

Here in New York, lenders are tightening the screws on new mortgages for buyers at the Brompton, a Robert A.M. Stern-designed luxury condo on 85th Street and Third Avenue. At least 25 buyers have retained real estate attorney Adam Leitman Bailey and are preparing possible litigation if concessions are not made on their apartments.

"A lot of people are unable to qualify [for financing] under the new guidelines," said one of the buyers under contract at the Brompton who asked not to be identified.

Related says 90 percent of the units in the 22-story luxury tower are under contract, with prices ranging from $615,000 for a studio to $7.95 million for a 4,500-square-foot, five-bedroom penthouse.

The developer has told buyers it has a waiting list of 200 potential buyers.

"We continue to meet the obligations of our contracts, and expect our purchasers to meet theirs," said Joanna Rose, a spokeswoman for Related. "We have no intentions to offer concessions."

Buyers at the Harrison, another Stern-designed condo at 205 West 76th Street, where Related is offering luxury apartments ranging from $765,000 for a studio to $7.1 million for a 2,900-square-foot, five-bedroom unit, are also having second thoughts about closing, sources said. Related says its position is the same as at the Brompton — no concessions — and that the waiting list remains long.

Defying the down market

Meanwhile, Related seems to be defying the down market at its ultra high-end project Superior Ink at 400 West 12th Street, which has 68 condo units and seven townhouses. According to Rose, 80 percent of units are under contract at the site, which is scheduled to be finished this fall. Prices at Superior Ink, which will reportedly be home to actress Hilary Swank, are in the $3,000-

per-square-foot range.

While many of Ross' projects have stalled because of the recession, he isn't shy about taking advantage of the down economy where he can. He told *The Real Deal* that Related is working with Deutsche Bank to rescue a number of troubled projects in New York.

While Ross declined to specify which New York projects he is working on, company officials pointed to two failed condos — the Tribeca Tower on Duane Street and the Aurora on West 57th Street — that Related rescued during the last major downturn in the 1990s.

And, in September, Deutsche tapped Related to rescue its disastrous $4 billion Cosmopolitan Resort & Casino in Las Vegas, where the original developer defaulted on about $900 million in loans.

Among other projects on Related's radar is the former Macklowe Properties site at the Drake Hotel, on Park Avenue between 56th and 57th streets, where Deutsche filed suit to foreclose in 2008. According to published reports, in January iStar Financial put its senior position on the Drake Hotel mortgage on the market for $160 million, representing a 25 percent discount on the note.

Ross was one of six reported bidders and he was recently quoted as saying the site was one of the "best pieces of property for development in the city."

However, even though some of Related's projects are moving forward, Hudson Yards is still daunting. Real estate observers are predicting that the project as originally envisioned will not be built anytime soon.

Attorney Ed Mermelstein, who is not connected to Related, said the only way for the company to kick-start Hudson Yards is to come up with a scaled-down version of its proposal.

"Hudson Yards is not immune, and in many ways, is in a much worse position than other projects in New York," said Mermelstein.

Still, real estate attorney Jamie Heiberger-Jacobsen, who is also not affiliated with the company, said Related is financially strong enough to ride out the downturn.

"In times like this, the new money gets hurt and the old money is there to stay," she said. "They're solid and strong enough where they can sit back and say, 'no more construction at the moment.'"