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Building Billionaires' Row: Why developers call Lendlease when they want to go glitzy

But developers are increasingly going it alone

JULY 19, 2017

BY KATHRYN BRENZEL

Though only three years old, One57 is kind of like the grandfather of Billionaires' Row. Extell Development's supertall was the first of the glassy bunch to rise along 57th Street — a litmus test of price and height along one of the city's most exclusive corridors. Its arrival heralded the proposals of at least seven more towers, many looming well over 1,000 feet high. Most of these descendants, it turns out, also tapped the construction team favored by their forebear: Lendlease.

The company has worked on Harry Macklowe and CIM Group's 432 Park Avenue, World Wide Group and Rose Associates' 252 East 57th Street, Vornado Realty Trust's 220 Central Park South and Hines' 53 West 53rd Street. And now that Extell is close to securing $900 million in construction financing for Central Park Tower at 217 West 57th Street, the developer has once again tapped Lendlease.

The reasons for Lendlease's ubiquity this side of Central Park are manifold. For one, developers like certainty. Lendlease is an international company with $11.9 billion in revenue and $38.8 billion worth of development underway, according to its latest annual financial report. The company ranked third – behind AECOM and Turner Construction on The Real Deal's ranking of the city's top general contractors with 7.7 million square feet of ground-up construction proposed and approved across the city between January 2012 and March 2017.

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"Developers want to lock in their financing with an established high-rise construction company," said Martin Loy, head of New Line Structures. "Lendlease has a very strong reputation in the residential sector, and a lot of developers don't like change. "

The company has worked on the 3.2 million-square-foot Time Warner Center at Columbus Circle and 50 United Nations Plaza. As the construction manager on the first real Billionaires' Row tower, the company showed that it could specifically manage a luxury supertall on 57th Street. Few companies could say the same: In the same league as Lendlease are giants like AECOM Tishman, Turner and Skanska (though the Swedish company largely sticks to infrastructure in the city). That's pretty much it.

"When you get up to buildings of that size and that complexity, there's only a handful of contractors that you turn to," said Kenneth Lazaruk, a construction law partner at Duane Morris. Now, Lendlease is becoming a developer in its own right, taking on projects such as 281 Fifth Avenue. The 130-unit condo project, being developed in partnership with Victor Group, scored a $369 million debt and equity injection in February.

Lendlease declined to comment for this story.

SOME GO IT ALONE

But the tide has started to turn. Some developers are opting to take on the construction manager or general contractor role themselves, even on complicated high-end projects.

JDS Development Group uses its own construction arm for most of its projects, including 111 West 57th Street and the American Copper Buildings at 626 First Avenue. Related Companies is general contractor on it condominium tower at 15 Hudson Yards and will take on that role at its office building at 50 Hudson Yards. JDS' Michael Stern said doing the work himself means that his construction team has a financial stake in the project rather than just working for a fee. The setup also limits the disconnect between the design and construction teams that can arise on these complex projects, he said. But Stern said he can see why most developers opt to get outside help.

"I get it," he said. "A lot of developers don't want to be in construction management business, and they are willing to pay a premium to not have to deal with it."

Along Billionaires' Row, the risk and the potential payoff are both colossal. Extell's Central Park Tower is expected to be the most expensive condo project in the city with a projected sellout of more than $4 billion. But foreclosures along 57th Street — including one pending for a $50.9 million unit at One57 — have raised concerns over the future of the ultra-luxury market.

"If we are looking at a project where we know financing may be an issue, then we tread very carefully and make sure that we are not relying on this project and have also minimized the number of projects of this nature," Loy said.

BIG REWARDS, BUT BIG RISKS

A few other strategies have been adopted over the years to limit risk on these projects. For one, lenders are more insistent that in-progress projects are meeting their construction deadlines, Lazaruk said.

The shortage of skilled construction labor in the city also poses a threat. Bill Motherway, president of New York operations at insurance brokerage firm Conner Strong & Buckelew and former vice president of Tishman Construction, said that three to four years ago, at the height of the building boom, subcontractors were taking on more work than they could handle, which resulted in a huge bottleneck. As a way to prevent this, general contractors and construction managers pre-qualify subcontractors — assuring that they have the finances and manpower to actually complete a job.

Construction companies also often pre-qualify developers, Motherway said.

"Our bigger guys want to do jobs for more well-known owners, not someone who has just hit the market," he said. "There are developers who you know are going to pay on time, but there are developers out there who are going to wait months and months to pay you."

He wouldn't specify any developers that fit into the latter category.

In the lead up to the financial crisis, developers were paying for foundations themselves, often to get a project moving as they waited for additional financing. In a lot of cases, the projects didn't get beyond foundation work and construction companies had to wait several months to be paid, said Donal O'Sullivan, founder of Navillus, a major concrete and tile contractor. Today, construction companies aren't likely to start on projects without knowing that the financing is in place.

"That's risky," he said. "Today's market with residential towers, you would be a little crazy to start a building if funding wasn't in place."

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