

ULI Case Studies

Sponsored by

Allen Matkins
CHALLENGE. OPPORTUNITY. SUCCESS.

New York by Gehry at 8 Spruce Street



Designed by Frank Gehry, 8 Spruce Street has become an iconic structure on the Manhattan skyline.

PROJECT SUMMARY

Designed by the renowned architect Frank Gehry, New York by Gehry at 8 Spruce Street is an 899-unit residential apartment building that also includes a pre-K to grade 8 public school, an ambulatory care center, retail space, and parking on the lower levels. The 1,040,904-square-foot, 76-story building is 870 feet tall and was at the time of its completion the tallest residential building in North America. The building, which features a rippling, undulating stainless steel facade, has become an iconic landmark that has captured both local and global attention and won critical acclaim.

QUICK FACTS

Location

New York, New York

Project type

Multifamily rental residential, mixed-use

Site size

1 acre (44,286 square feet)

Land uses

Multifamily residential, pre-K to grade 8 public school, medical office space, retail, parking, parks and plazas

Keywords/special features

Rental housing, high-rise building, transit-oriented development, design for healthy living

Website

www.newyorkbygehry.com

Project address

8 Spruce Street
New York, New York 10038

Developer/owner

Forest City Ratner Companies LLC
1 Metrotech Center
Brooklyn, New York 11201
www.forestcity.net

Equity development partner/owner

National Real Estate Advisors on behalf of the
National Electrical Benefit Fund
New York, New York

Investor/owner

TIAA-CREF
New York, New York
www.tiaa-cref.org

Architect

Gehry Partners LLP
Los Angeles, California
www.foga.com

School owner

New York City Department of Education
New York, New York
schools.nyc.gov

Medical space/parking garage owner

New York Downtown Hospital

The development of New York by Gehry at 8 Spruce Street is a story about extraordinary design, perseverance, and exceptional timing. The building, designed by Frank Gehry, became an instant landmark in New York and garnered international praise among architectural critics. The project might have turned out quite differently, however, if not for the dedication of the developer, Forest City Ratner, to the original concept for the project. Even at a time when many people questioned the viability of the project, Forest City Ratner was resolute in its objective to carry the project to completion. In the end, with the help of fortunate timing and a recovering market, 8 Spruce Street has proved to be a very successful investment that has created considerable value for Forest City Ratner and the community of New York City. Located in lower Manhattan, the building offers panoramic views of midtown, Brooklyn, New Jersey, the Hudson River, the East River, and New York Harbor.

The Site and the Idea

The location of the site in the center of lower Manhattan surrounded by mid-rise buildings presented an opportunity to build a tall building that could provide breathtaking views in all directions, capturing skylines, bridges, rivers, harbors, and most of the major landmarks of New York. In addition, the site is easily accessed by public transportation, including two nearby multimodal stations, the Fulton Street Transit Center and the World Trade Center Transportation Hub, both of which are being dramatically improved with multibillion-dollar investments.

The one-acre site covers a bit more than half the one block located between Spruce and Beekman Streets in the center of lower Manhattan. The site is on the north side of the Financial District, several blocks to the north and east of the 9/11 Memorial Museum and approximately one block from City Hall and City Hall Park. The Woolworth Building, City Hall, and the completed 8 Spruce Street form a triangle of landmark buildings in lower Manhattan that overlook City Hall Park.

The site was a parking lot owned by the adjacent New York Downtown Hospital, also known as New York Presbyterian/Lower Manhattan Hospital. New York Downtown Hospital sold the site to Forest City Ratner in December 2004.



The location of the site in the center of lower Manhattan, surrounded by mid-rise buildings, presented a compelling opportunity to build a tall building that could provide largely unobstructed views in all directions.

New York Downtown Hospital is located immediately to the southeast of the site across the William Street Plaza. On the northeast side of the property across Spruce Street is PACE University, and beyond these buildings are the entry ramps to the Brooklyn Bridge. To the northwest across the West Plaza and to the west across Beekman Street are a series of older mid-rise residential and commercial buildings.

Notably, the site is within the area of lower Manhattan that was designated to receive Liberty Bond financing to spur redevelopment after the September 11 tragedy. Following that tragedy, serious doubt existed about whether and how the area could recover from the physical and psychological blows brought on by the World Trade Center disaster. The federal government developed the Liberty Bond program to address this problem and to assist with economic recovery in the area. These bonds helped substantially with the financing of the project.

At the time that Forest City Ratner proposed the idea for the residential tower, lower Manhattan was a real estate market in transition, but by the time the building became available for leasing, the lower Manhattan residential and commercial real estate markets had recovered substantially. The residential population of downtown has grown from around 24,000 in 2000 to an estimated 60,000 in 2012, and 8 Spruce Street opened in a strong market for residential leasing.

Development Background and Team

The site became available for redevelopment in 2003 at a time when the hospital was in financial distress. The hospital decided to sell the site to monetize its assets and raise capital. Forest City Ratner put together the winning proposal and then navigated an early development process that involved financing challenges and litigation.

RFP process. The hospital issued a request for proposals (RFP) that solicited bids for the parking lot site. Even though the RFP stipulated that one floor of the building be reserved for the use of the hospital, this was not a typical public/private partnership sale, and a straightforward sale of the site to the highest bidder was not the type of deal that Forest City Ratner Companies usually would be interested in pursuing. As MaryAnne Gilmartin, president and CEO of Forest City Ratner, remarked, “Usually if it is not complicated and difficult, we are not interested.”

However, Forest City Ratner Companies saw an opportunity to build a unique structure that could take full advantage of the location of the site. Likewise, the hospital wanted to ensure that the new building was both compatible with and complementary to the hospital building next door. The RFP submitted by Forest City Ratner Companies bid \$100 per square foot for the parcel. Although Gilmartin admitted that this was a high price at the time, she pointed out that land was priced far higher in other areas of New York City.

Forest City Ratner proposed that Frank Gehry be the designer for the project. Gilmartin stated that the objective was “to create a building unlike any other building that has been built in New York City,” and one “that would leave a landmark on the city skyline.” New York Downtown Hospital saw the advantage of being located next to an immediately recognizable architectural feature and selected the Forest City Ratner proposal. The hospital realized that Frank Gehry’s design for the building could enhance its image, which in turn would help attract high-quality doctors. Forest City Ratner acquired the site in December 2004.

The developer and equity partner. Forest City Ratner is the New York division of Forest City Enterprises Inc., a New York Stock Exchange-listed national real estate company. The company acquires, develops, owns, and manages commercial and residential real estate in select core markets across the United States and has developed special expertise in public/private development. Founded in 1920 and based in Cleveland, Ohio, Forest City Enterprises’ portfolio has grown to include hundreds of premier properties. The company is especially active in New York, Washington, D.C., San Francisco, Boston, Dallas, Los Angeles, and Denver.

Forest City Ratner’s equity partner in the development of 8 Spruce Street was National Real Estate Advisors (NREA). Founded in January 2010, it is the primary real estate investment manager of the National Electrical Benefit Fund (NEBF), a multibillion-dollar, multi-employer, defined-benefit pension plan that provides retirement and related benefits to employees in the electrical construction industry.

Approvals. Because the site was zoned to allow a maximum floor/area ratio with no height restrictions, the project required no rezoning to proceed. In addition, the zoning regulations permitted the new building to abut neighboring structures, which would have obstructed many attractive views for nearby residents. As a result, the neighbors tried to stop the project through litigation. “The design and massing of the building was an issue,” acknowledged Shwetha Subramanian, vice president of Forest City Ratner. To understand and mitigate neighborhood concerns, the developer and the hospital held public meetings. Yet another challenge was that the sale of the site required mayoral approval.

The developer entered into a 120-day negotiating period with the residents to resolve issues regarding setbacks. Eventually, a park and plaza between the new building and the existing buildings to the northwest were proposed as a solution. The developers signed a restrictive declaration that required the building owner to keep 70 linear feet between the existing buildings to the northwest and the new structure. The developers and designers used this space to create an 11,500-square-foot plaza, which had the added advantage of allowing them to add 11,500 square feet of floor area to the top of the building. “We recognized this agreement was better for the building; the nearby residents were happy, and from there we became members of the community,” remarked Gilmartin. The litigation was then dropped as a result of the agreement. Subramanian added, “Coming to a quick settlement was critical,” and this proved to be especially true when the time came to finance the project in March 2008.

The developers were approached by New York City with the idea of putting a pre-K to grade 8 public school in the building. The area suffered from a shortage of schools at the time, and the developer thought the school could be

helpful in marketing the building. Moreover, the addition of four floors for the school would raise the residential units higher, where they would be more valuable. However, Forest City Ratner was concerned that including the school at the base could lead to delays. The city finalized the deal by offering Liberty Bond financing for the project if the school were included. The agreement stipulated that the school be built with a certain fixed price and a contingency and the city paid for the construction as it proceeded. The city agreed to acquire and operate the school upon completion.

Early stages of development. The early stages of development required some strategic decision making for the project to proceed. The most important decision was selecting the architect. Forest City Ratner became familiar with the design work of Frank Gehry when he submitted an entry for the New York Times Tower competition, and the developer subsequently approached Gehry about partnering to create a proposal for 8 Spruce Street. Gehry was intrigued by the opportunity to design a residential tower, and they began a collaborative process to design a new landmark building.

The original idea for the project involved developing both condominium residences and rental apartments, but by 2006 it was already becoming apparent that the New York condominium market was at risk for becoming saturated from excessive supply. As a result, the developers chose to revise the design to eliminate the for-sale units and include only rental units in the residential portion of the tower.

The developers also faced an early deadline that forced them to move more quickly than they had planned. A tax abatement program existed in the city that was set to expire. To secure the tax abatement, the developer had to lay the building’s foundation by a certain date. This timing was unusual because construction financing was not yet in place. Forest City Ratner used equity to begin construction on the foundation in 2006. Moving up the start of construction allowed the company to qualify for the tax abatement and for the project to receive 12 years of tax abatement followed by eight years of phased-in taxes.

In planning the project, Forest City Ratner knew it was paying a premium for Frank Gehry’s design, but the company was not certain whether

the design would result in increased revenues. When Forest City Ratner pitched the project to lenders, notes Gilmartin, “We didn’t try to take any credit for Frank. Nobody could prove that the building was going to produce a greater per square foot value” compared to comparable premium rental buildings. Because the company could not quantify the value that Gehry would bring as a designer, it financed the project as a standard high-performing rental tower.

Development Finance

Although Forest City Ratner is a public company, it usually finances development projects using project-level equity and debt. In this case, Forest City Ratner and NEBF, a large pension fund, provided the equity for the development. Unlike many pension funds, NEBF was interested in investing in development projects in part because it represents the financial interests of electrical workers involved in construction. The ownership was originally structured such that NEBF owned 30 percent of the equity and Forest City Ratner owned 70 percent. The \$87.75 million land acquisition was financed with equity, debt, and a 65 percent loan-to-cost land loan.

Construction financing. Construction financing for the residential portion of the building was arranged using bond financing including New York City Liberty Bonds. This program, funded by the federal government following the World Trade Center disaster on September 11, was created to help revitalize lower Manhattan. Forest City Ratner worked closely with the New York City Housing Development Corporation (HDC) and several banks to arrange \$680 million in construction financing using the Liberty Bond program and other bond financing programs. The loan was closed on March 28, 2008, just after Bear Stearns was acquired by JP Morgan, but before the financial crisis was in full swing. Gilmartin asserts that “Two weeks after closing the loan, it could not have been replicated,” because of the rapidly worsening financial crisis.

The \$680 million in bonds, of which approximately \$204 million came from the federal Liberty Bond program, were issued by the New York City HDC. The tax-exempt status of these Liberty Bonds considerably reduced the borrowing costs for the developer. The Liberty Bond securities issued for the project represented the last of HDC’s allocation. In addition,



The residential units feature bay windows and irregular exterior wall lines.

tion, HDC issued taxable bonds totaling over \$450 million for the project. The New York State Housing Finance Agency also contributed \$13.9 million from its own Liberty Bond allocation. The financing was the largest construction loan in Forest City Ratner’s history.

The four lead banks involved in the financing provided credit enhancements for the bonds. By providing the credit enhancements the banks “essentially took on the construction risk involved, as bond buyers don’t take real estate construction risks. Thus, in the case of a default, the banks would be called on to step into the shoes of the bondholders,” explained Christopher L. Clayton, executive vice president for finance with Forest City Ratner. These banks included Eurohypo AG, one of Europe’s leading international real estate banks at the time, which acted as administrative agent; Nord/LB, an international real estate bank with branches in London, New York, Shanghai, and Singapore; ING Real Estate Finance, a subsidiary of one of the world’s largest financial institutions; and Fifth Third Bank, a leading financial institution headquartered in Cincinnati, Ohio. RBS Citizens N.A. also provided credit enhancement for the bond issue. In addition, NEBF provided a \$110 million mezzanine loan for the project.

The Liberty Bond program involved fees that were used to support affordable housing development in New York City. According to a press release issued by HDC, “The [8 Spruce Street] Liberty Bond financing generated approximately

\$6 million in fees that HDC will devote to financing affordable housing.”

School financing. The construction costs for the school were paid for by New York City as the costs were incurred, and the school was legally acquired by the New York City Department of Education upon completion.

Financial crisis impact. Although the bond financing was secure, as financial and market conditions worsened in the latter half of 2008 and 2009, Forest City Ratner became very concerned about the financial viability of the project. As a result, it halted construction for a period of 60 days to determine whether the project was still viable. The company had already framed the building up to the 30th floor at this point, and it considered truncating the building at 38 stories as a way to reduce its financial risk. During this time Forest City Ratner met with trade unions and contractors and was able to renegotiate some of the work rates, rules governing union work, and construction contracts that had been arranged. Forest City Ratner was able to lower its construction costs by about \$25 million, which was enough to enable the company to proceed with the project. It was also able to renegotiate and reduce the costs for using the Gehry name in the naming and marketing of the building. Construction resumed in 2010.

Loan restructuring. In July 2011, when the construction was nearing completion and leasing was underway, the loans were modified and



The view from one of the upper-level units, with One World Trade Center and the Hudson River on the left.

restructured to reduce the debt on the property. As part of this restructuring, NREA, on behalf of NEBF, converted its \$110 million of mezzanine debt to equity, thereby increasing its equity ownership from 30 percent to 49 percent. Forest City Ratner owned the remaining 51 percent.

At this time, Forest City Ratner also secured a modification of the property's existing nonrecourse financing with a six-bank group led by Munich RE, including the original four lenders and new lender Wells Fargo. Under the modification, the bank credit facility was reduced from \$605 million to \$539 million. In addition, the maturity of the credit facility was extended through July 1, 2016. Together these changes reduced the total debt on the property from \$715 million to \$539 million and Forest City Ratner's pro rata share of the debt from approximately \$500 million to \$275 million. The bonds will mature in 2048 and are tied to both the SIFMA (Securities Industry and Financial Markets Association) index (for the tax-exempt bonds) and the LIBOR index (for taxable bonds). The total annual letter of credit fees were \$14 million. The credit enhancements are set to expire in the middle of 2016, so in August 2014 the developer began the process of refinancing the credit enhancement for those bonds.

Partial sale of equity interest. As the property neared stabilization, Forest City Ratner and NEBF sold 49 percent of their equity interest in the property to TIAA-CREF, a national financial services organization, in December 2012. CBRE brokered the sale. The transaction valued the property at \$1.05 billion, more than \$1,000 per square foot, which at that time was the highest per square foot sale price for a rental apartment tower in New York City. "We wanted to recapitalize," stated Gilmartin, "but as a public company, we also wanted to show the market the value that we had created on the site. We also reduced future real estate risk for the company. We were a

highly levered company at the time and wanted to reduce leverage." TIAA-CREF became a 49 percent equity owner in the residential portion of the building, with original partners Forest City Ratner and NREA retaining 26 percent and 25 percent stakes, respectively. Before the recapitalization, Forest City Ratner and NREA owned 51 and 49 percent, respectively. Forest City Ratner received proceeds from the recapitalization of approximately \$120 million.

Planning and Design

In the design for the building, the developer and architect chose to create a slender tower set apart from adjacent buildings by plazas. The zoning for the site did not restrict the building height, so rather than fill the entire site to achieve the allowable floor/area ratio, the developers and designers chose to erect a taller structure and add open space at ground level on two sides of the building. This scheme offered several benefits:

it allowed creation of a very tall, freestanding tower; it created more units at the top with better and more marketable views; it improved the views from the lower floors, which now look out onto landscaped plazas; and it offered a better pedestrian experience at the ground level, where privately owned plazas open to the public offer a parklike setting. The inclusion of a school also helped enliven the ground-level environment. The final design for the building included 76 stories and 1,040,904 square feet of space.

An iconic skyscraper. Once these decisions were made, Gehry was free to embark on the creation of his first true skyscraper, bringing his architectural genius to a new vertical form. Designing a tower was a challenge very different from the more horizontal projects he had designed before. Gehry developed numerous massing models before settling on the final design. Nine of these models are displayed in the leasing office for the building. The final scheme incorporated elements that he had used in other buildings, such as undulating stainless steel panels, but the structure and overall shape of the building were a departure from the forms of his previous architecture.

"The alliance with Gehry was good for both firms," reflects Subramanian of Forest City Ratner. "Forest City got great architecture. The Gehry team was remarkable to work with." Gehry benefitted by being able to broaden the scope of his architectural work and apply his



The most distinctive element of the design is the undulating stainless steel facade that folds and ripples across three sides of the building.



The building steps back as it rises, forming terraces on the seventh, 24th, 40th, and 52nd floors. As a result, 13 units offer private terraces.

unique style to a new building type, the high-rise apartment building. The completed project won praise from architectural critics. In 2011, Nicolai Ouroussoff of the *New York Times* wrote that the building is “the finest skyscraper to rise in New York since Eero Saarinen’s CBS Building went up 46 years ago.” Indeed, the building has become an iconic skyscraper and major new landmark for the city.

The building plan and structure. The 76-story building includes a six-story podium clad in brick that includes a public pre-K to eighth-grade school on the first four floors, doctors offices (associated with the adjacent hospital) on level five, and residential amenities on level six. Above this brick, rectangular podium rises a T-shaped residential tower clad in brushed stainless steel. The seventh and eighth floors of the tower include residential amenities, and residential units are located on the ninth to the 76th floors, including a penthouse on the top floor that features three large units. Below the plazas and the building is one level of underground parking, which is owned and operated by the hospital.

The building’s structural frame is reinforced concrete, which is typical for high-rise residential towers in Manhattan. A T-shaped floor plan was chosen for the upper floors, creating six corner apartments per floor. The building steps back as it rises, forming terraces on the seventh, 24th, 40th, and 52nd floors. This creates 13 units with terraces. The facade pattern changes at each step back. “It is a very rational building on the inside. All of the drama is on the exterior,” explained Subramanian. “There was a huge collaborative process among the developer, the design professionals, and the construction team.”

The facade. The most distinctive element of the design is the undulating stainless steel fa-

cade that folds and ripples across three sides of the building. (The facade on the south side is flat.) The exterior is composed of about 10,500 stainless steel panels, custom made in Japan, which fit together like puzzle pieces. Although only some 2,000 of the 10,500 panels are exactly alike, fewer than five did not fit as planned. Aluminum brackets attach the panels to the concrete slab. The windows themselves are not curved but rectangular, varying in width with the changing profile of the facade. The undulating facade forms many bay windows throughout the building. Gehry had to make some adjustments in the curtain wall to accommodate the window-washing rigs for the building. The panels were also buffed during manufacturing to reduce glare.

According to Forest City Ratner’s internal documents, “Over 200 study models were made by Gehry’s office during the design process, of which 65 were traditional models... Gehry’s office digitally built the entire building in three dimensions

to refine and adapt the articulated folds.” Such a complex facade would seem to be challenging and expensive to create, but Forest City Ratner maintains that the facade costs were not much different from the alternatives, and the installation went smoothly. Gehry’s team has had extensive experience in using these undulating stainless steel panels in previous projects and has developed a cost-effective approach for facilitating the manufacture and installation of this material.

Ground-level plan and plazas. The plan has an unusual entrance feature that incorporates a porte cochere. The residential lobby and entrance are located on the west side of the building, set behind the porte cochere, which runs the entire length of the building between Spruce and Beekman Streets. The lobby was also designed by Gehry and features an undulating, curved reception desk and furniture that echo the curvilinear forms of the building exterior.

A mail room and a concierge service area are located to the right of the main entrance. A small, 900-square-foot retail space is located on the western corner of the building facing onto Beekman Street. This space is currently vacant but may eventually be occupied by an upscale coffee shop.

The West Plaza just outside the lobby features both fixed and movable outdoor furniture as well as trees, grasses, and water features. Access to the plaza is unrestricted, and it functions as a public park even though it is actually privately owned. James Corner Field Operations, the same landscape architect that designed the Highline in New York City, designed the plaza.



The porte cochere and West Plaza offer an attractive entry experience for both pedestrians and those arriving by car.



Most of the first four levels of the building are occupied by the Spruce Street School—a New York City public school—and the first six stories of the building are clad in brick.



On the seventh floor is a 50-foot indoor swimming pool under a skylight, with an outdoor sundeck.



Amenities include a media room, featuring curving seating arrangements also designed by Gehry.

Piet Oudolf, a horticulturalist who worked with Gehry on Millennium Park in Chicago, also collaborated on the plaza design.

On the east side of the building is the William Street Plaza, which separates the building from New York Downtown Hospital and provides access to the parking garage. The entrances to both the school and the medical office space are also located on this side. The school occupies the northern portion of the building at ground level. The lobby for the medical space is off the east plaza near Beekman Street. Loading docks are located off Beekman Street as well.

Spruce Street School. Spruce Street School, P.S. 397, is a public school accommodating 648 pre-K through eighth-grade students. It is located on the first four floors of the building with a 5,000-square-foot outdoor play area on the terrace of the fourth floor. The interior spaces of the school were designed by Swanke Hayden Connell Architects, which was commissioned by Forest City Ratner to provide architectural, interior design, and graphic design services for the 100,000-square-foot facility. The design of the school was carefully managed by the New York City School Construction Authority, and the school opened in September 2011.

Medical/ambulatory space. The medical space in the building includes 21,692 square feet on the fifth floor. The hospital is expected to occupy its space in 2015. The lobby for the office space is located off the William Street Plaza at the corner of Beekman Street.

Parking. The parking garage includes 175 spaces that are mainly reserved for hospital use. Some of the spaces will be available for lease to residents of the building, but the exact number has not yet been established. The zoning did not require any parking in the building. Residents can

use a number of garages nearby if needed. In addition, three parking spaces in the porte cochere are reserved for the penthouse tenants to use.

Apartments. The residential portion of the building includes 899 units in 677,186 net square feet of space with an additional 3,215 square feet of terrace space on three upper levels where the building floor plate is reduced as it rises. The building has 350 unique apartment floor plans because of the shifting form of the facade that flows like waves across the building.

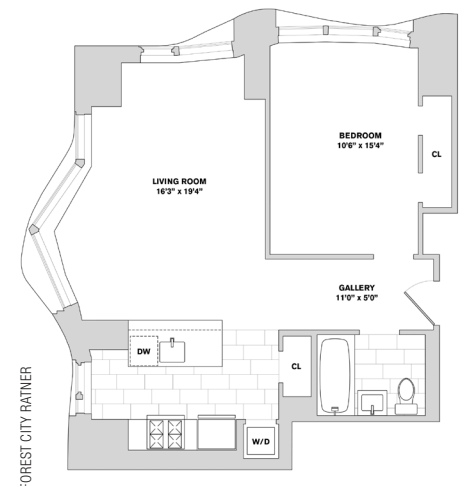
The apartments range from 500 to 2,500 square feet and include 191 studios, 504 one-bedroom units, 164 two-bedroom units, 23 three-bedroom units, four penthouse units, and 13 units of various sizes that have terraces. Gehry designed all of the apartment interiors and selected all interior finishes and fixtures. Interior finishes include brushed stainless steel appliances, quartz composite countertops, and vertical-grain Douglas fir cabinets. Windows are equipped with solar shades, and all units have generous nine-foot ceilings. Premier units on the 52nd floor and above have an upgraded appliance package.

Because the building included a new school, the developers believed a market might exist for two-bedroom units, but they wanted to maintain their ability to rent the apartments as one-bedroom units and studios. Thus, in developing the floor plans they strategically placed one-bedroom units next to studios so that they could combine units if a strong market emerged for two-bedroom units.

Apartment amenities. The residents have access to 22,165 square feet of residential amenities. On the sixth floor is a grilling terrace with dining cabanas, a game room with pool tables, table tennis, and two golf simulators. On the seventh floor is a 50-foot indoor swimming

pool with a skylight, an outdoor sundeck, and a glass wall that can be opened to the sundeck in warm weather; a 3,300-square-foot fitness center; a drawing room and social area with a baby-grand piano; a spa suite with private treatment rooms; a chef's demonstration and catering kitchen; and a private dining room. On the eighth floor is a 1,200-square-foot multi-purpose fitness room, a spin studio, and a boxing studio. Other amenities on this floor include a library, a film-screening room, a children's playroom, and a tweens' den. Gehry designed all of the spaces for these amenities.

Building systems. All units enjoy central air conditioning, which is not typical for rental units in the area, which often use through-wall packaged terminal air conditioner units. Eleven elevators serve the residential portion of the building: five for the lower floors, five for the upper floors, and one service elevator for all floors. A water storage unit, heating, ventilating, and air-conditioning systems, window-washing equipment, and other mechanical equipment are located on



The floor plan for a one-bedroom residential unit, highlighting the irregular shape of the exterior wall line.

the roof and are concealed behind the stainless steel facade that extends upward beyond the top floor of the building.

Marketing, Leasing, and Management

Marketing for the building has focused mainly on the dramatic Gehry design. The architecture of the project has generated significant publicity in magazines and other publications in the city and around the world. In addition, the visibility of the tower, which can be seen from Brooklyn, Queens, Staten Island, and New Jersey, has created a lot of local interest. The development has also had a high referral rate. “With the Gehry design, it has not been hard to get people in to visit the building and the units,” reported Scott Walsh, vice president for residential development with Forest City Ratner. “The building is very unique and visible on the skyline.”

Upon opening, interest in the building was so high that the marketing team created a weekly tour program to address the overwhelming curiosity from those who were interested in seeing the building but not necessarily interested in renting an apartment, including many foreign tourists.

Social media and advertising. Forest City Ratner also markets the building through a Facebook page and Twitter feeds. “We do various outreach efforts through social media,” reported Walsh. “The social media is quite popular [as it relates to] this building because it does tie in with Frank Gehry’s other followers. People from all over the world are visiting the website, retweeting the tweets, or are Facebook friends.” The marketing team works with an advertising group to coordinate the social media for Twitter, Facebook, and Pinterest. The marketing team also takes out advertising in local beach publica-

tions year-round as part of its effort to reach out to the target demographic.

The name. The project was originally named Beekman Place after one of the adjacent streets. Around 2010, Forest City Ratner changed the name to New York by Gehry at 8 Spruce Street. The developers believed that putting the Gehry name on the building would benefit the marketing of the residential tower. The change also avoided confusion with the Beekman Hotel.

Leasing. Once the exterior of the building was completed, leasing of the lower units in the building began in March 2011. About 200 people per week came through the leasing office at the beginning of the leasing effort. Approximately one year after leasing began, the building was 78 percent leased, and as of September 2014 the building was 99 percent leased.

Rents during the first year of leasing averaged about \$78 per square foot, which was at the upper end of the range for rents in Manhattan at the time. Most of these initial leases were on the lower floors of the building, because the upper floors were not yet finished. As the construction progressed the top units became available, but because the rents were more expensive they took longer to lease. Nevertheless, the penthouses achieved initial rents in excess of \$100 per square foot. Concessions during initial lease-up typically included one to three months of free rent.

Rents have continued to improve each year. As of August 2014 two studio units were available for \$3,070 and \$3,690 per month. One-bedroom units were available in the \$3,990 to \$5,585 range, and two-bedroom units were being offered in the \$6,090 to \$9,490 range. The developers also found that as they were completing the project the market was strengthening

for larger, high-end units on the penthouse floor, so they redesigned this floor, enlarging the units and reducing the number of units from eight to three. They also added enhanced packages on floors 70 to 75.

About one-third of the renters, especially those new to the city, are brought in through the brokerage community. The leasing staff for the building includes a leasing manager and four leasing agents. One of these agents is now dedicated solely to renewals. “Retention is an important part of the leasing,” asserts Walsh, “as the turn costs for a new renter can decrease any rent growth that might be obtained by leasing to a new tenant. We also have a very big move-up population in the building.” The leasing process is electronic and can be done from anywhere in the world.

Demographics. With nearly 900 units, the building has a wide demographic profile in terms of age, gender, and race, including many renters who are moving from other countries. Approximately 70 percent of the building is made up of singles or couples, and 30 percent are families in the larger units. More than half the property’s first 688 tenants earned more than \$200,000 per year.

Management. The building is legally owned and operated as a commercial condominium consisting of four ownership units: the residential tower, the school, the ambulatory care facility for the hospital, and the hospital parking.

FirstService Residential provides the property management for the residential portion of the building. In 2012 there were 31 employees managing the residential units including one resident manager, four handymen, 11 doormen, 13 porters, and two loading dock operators. In



Interior finishes include brushed stainless steel appliances, vertical-grain Douglas fir cabinets, and generous nine-foot ceilings.



Various light-filled fitness rooms are included in the amenity program.

addition, a building engineer and four engineering staff support all of the building condominium owners including the school and the hospital.

The residential development provides amenity programming to engage the residents in a variety of activities, including swim classes, running, parties, a speaker series, ice cream socials, and yoga classes. Amenity memberships are offered at rates that vary depending on the activity. In addition, an independent contractor, The Wright Fit, provides fitness services. The building is pet friendly.

Performance. At the time the property was being offered for sale in 2012, effective gross income for the property was projected to be around \$54 million in 2013, and this income was projected to rise to about \$65 million by 2016. After operating expenses, the net operating income was expected to be \$41.3 million in 2013, and net cash flow after debt service was projected to be around \$25 million. This level of performance exceeds the pro forma estimates. Rents have increased on average about \$15 per square foot since 2011. Concessions are also down considerably from 2011. The building is now one of the top-performing buildings in the Forest City Ratner portfolio.

Observations and Lessons Learned

The financial crisis of 2008–2009 presented numerous problems for Forest City Ratner. Many similar projects failed or were halted during this period. The developer could have put the project on hold and considered reducing the size of the project. Ultimately, Forest City Ratner decided to move forward with the original vision, which proved to be the right thing to do. Truncating the building would have been a solution to a short-term problem and would have missed the long-term opportunity. In the end, Forest City Ratner was thankful that it did not waver from its objective to build the tallest residential high rise in New York City. “It is important for developers to push hard to overcome problems and toward lofty dreams,” observed Subramanian.

Promptly resolving the issues with setbacks and view corridors at the start of the project proved to be more important than anyone could have known at the time. If litigation had delayed the project at the outset even by a month, the project may have been impossible to finance once the financial crisis took hold. The decision to negotiate a resolution with the neighbors and to not waste time

with litigation was important in creating the right timing for the project. Maintaining flexibility and efficiently resolving disputes are key ingredients in successful development.

Although famous architects have a reputation for being difficult to work with and creating impractical designs, the developers have only positive things to say about working with Frank Gehry, who created a practical, efficient, and manageable building. Moreover, the project benefitted from Gehry’s world-class design, which raised the profile of the building and with it the Forest City Ratner brand. The collaborative process with Gehry and the success of the project have encouraged Forest City Ratner to work with high-profile architects on subsequent and future projects.

Forest City Ratner was fortunate that its debt did not negatively impact the financial viability of the project. However, if construction had started two years earlier and the building had opened in 2009 with the same debt structure, the project might not have been as successful. Forest City Ratner sought to reduce leverage as the project was completed, even as the risks waned. “Leverage is not something you should use to get a project done. The fact that banks will lend you money does not mean you should borrow,” observed Clayton.

In the end, the successful development of 8 Spruce Street was a combination of fortuitous timing and clarity of vision. Because the project was successfully financed just before the financial crisis, the developer was able to renegotiate and lower the development costs during the recession. As a result, the project came online with little competition at a time when the market was recovering. Several important lessons can be learned from this project. First, it is necessary to maintain a long view and understand that challenges may resolve with changes in the market. In this case, believing in a recovery scenario, even when it was hard to envision, paid off. In addition, this project could not have come to fruition if it had not been for the patience and perseverance of the developer. It took courage to proceed. As Gilmartin pointed out, “Purposefulness and conviction is powerful. Almost every day you are questioned about what you are doing and why you are doing it, so believing in it is critical.” She adds, “Know who you are. Are you a merchant builder, looking to take advantage of the moment, or are you a long-term value creator? Make decisions accordingly.”

CONTRACTORS AND CONSULTANTS

School architect

Swanke Hayden Connell Architects
New York, New York

Landscape architects

James Corner Field Operations
New York, New York

Piet Oudolf Gardens and Landscapes

Hummelo, Netherlands

Structural engineer

WSP Cantor Seinuk
New York, New York

Civil engineer

Philip Habib & Associates
New York, New York

Construction manager

Kreisler Borg Florman General Construction
Company Inc.
Scarsdale, New York

OTHER RESOURCES

Video

www.youtube.com/user/ULITV

Interviewees

MaryAnne Gilmartin, president and CEO,
Forest City Ratner Companies, New York
Christopher L. Clayton, executive vice president,
Forest City Ratner Companies—Finance
Shwetha Subramanian, vice president,
Forest City Ratner Companies—Residential
Development
Scott Walsh, vice president, Forest City Ratner
Companies—Residential Development
Carlin MacDougall, a consultant to Forest City
Ratner, also provided assistance in the
preparation of this case study.

PROJECT INFORMATION

Development timeline

Request for proposals issued	2003
Site purchased	December 2004
Foundation construction started	2006
Construction loan closed	March 2008
Building construction started	April 2008
Construction temporarily halted	2009
Construction restarted	2010
Leasing started	March 2011
Construction loan restructured	July 2011
Lower units opened for occupancy	2011
Spruce Street School opens	September 2011
Construction completed	August 2012
Part of project sold	December 2012

Gross building area

Use	Square feet
Residential and retail*	900,830
School	94,046
Hospital	21,692
Parking	24,336
Total GBA	1,040,904

*Retail totals 900 square feet.

	Site area (sq ft)	Percentage of site
Building	23,000	52%
West Plaza	11,500	26%
Williams Plaza/other	9,786	22%
Total	44,286	100%

Residential information

Unit type	Number of units	Avg. unit size (sq ft)	Percentage leased	Typical monthly rent*
Studio	191	500	100	\$3,100
One bedroom	504	670	100	\$4,500
Two bedroom	164	1,100	100	\$7,100
Three bedroom	23	1,600	100	\$12,000
Penthouse	4	2,500+	100	\$25,000
Units with terraces	13	800–1,600	100	\$7,800
Total	899			

*As of summer 2014.

Residential area	Square feet
Net rentable area	677,186
Amenities space	22,165
Terraces on floors 24, 40, and 52	3,215

Development cost information

Site acquisition cost	\$87,750,000	Soft costs	
Hard costs		Architecture/engineering	\$40,000,000
Excavation/site work/foundations	\$25,700,000	Marketing	\$70,000,000
Fees/general conditions	\$54,000,000	Legal/accounting	\$3,000,000
Residential	\$452,000,000	Taxes/insurance	\$8,500,000
School	\$30,000,000	Construction interest and fees	\$96,000,000
Other	\$46,050,000	Total	\$154,500,000
Total	\$607,750,000	Total development cost	\$850,000,000

PROJECT INFORMATION

Financing sources

Debt capital sources for 2011 refinancing

Munich RE	\$158,544,544
Fifth Third Bank of Northwestern Ohio N.S. Toledo	\$86,727,303
ING Real Estate Finance (USA) LLC	\$86,727,303
Norddeutsche Landesbank Girozentrale (NordLB)	\$86,727,303
Wells Fargo Bank, N.A.	\$86,727,303
RBS Citizens, N.A.	\$39,623,253
Total credit facility	\$545,077,011

Tax-exempt and taxable bond breakdown

NYC HDC tax-exempt Liberty Bonds	\$203,900,000
NYC HDC taxable bonds	\$335,100,000
Total	\$539,000,000

Initial equity capital sources

Forest City Ratner	\$183,500,000
National Electric Benefit Fund	\$147,100,000
Total	\$330,600,000

Ownership as of 2012

TIAA-CREF	49%
Forest City Ratner	26%
National Electric Benefit Fund	25%

SITE PLAN





About the Urban Land Institute

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

Established in 1936, the Institute today has more than 33,000 members, representing the entire spectrum of land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, academics, and students.

ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both the built and natural environment;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Patrick L. Phillips, Global Chief Executive Officer

The development of this case study was underwritten in part by the law firm Allen Matkins.



About Allen Matkins

Allen Matkins is a California-based law firm specializing in serving the real estate industry. The firm has more than 200 attorneys in four major metropolitan areas of California: Los Angeles, Orange County, San Diego, and San Francisco. Its core specialties include real estate, real estate and commercial finance, bankruptcy and creditors' rights, construction, land use, natural resources, environmental, corporate and securities, intellectual property, joint ventures, taxation, employment and labor law, and dispute resolution and litigation in all these matters.

Michael L. Matkins, Founding Partner

Michael C. Pruter, Partner

David Osias, Managing Partner

Funding for this case study was also provided by the ULI Foundation.

ULI CASE STUDIES

The ULI Case Studies program highlights and showcases innovative approaches and best practices in real estate and urban development. Each case study provides detailed information regarding the ideas, plans, process, performance, and lessons learned for the development project. Each also includes project facts, timelines, financial data, site plans, photos, location maps, and online videos. For more information, visit the ULI Case Studies website at www.uli.org/casestudies.

Kathleen Carey

Executive Vice President and
Chief Content Officer

Dean Schwanke

Senior Vice President
Case Studies and Publications
Principal Author

Adrienne Schmitz

Senior Director
Case Studies and Publications

James A. Mulligan

Senior Editor

Laura Glassman

Publications Professionals LLC
Copy Editor

Betsy Van Buskirk

Creative Director

Anne Morgan

Design and Production/Layout

Martin Schell

Manager, Online Communications

Danielle Bilotta

Online Communications

© 2014 by the Urban Land Institute

1025 Thomas Jefferson Street, NW
Suite 500 West
Washington, DC 20007-5201
U.S.A.