Large-Scale Urban Mixed-Use Development Projects:
Recent Trends in Sources of Financing, Prospects for the Future

by
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Bachelor of Arts, Wesleyan University, 1991.

Submitted to the Department of Urban Studies and Planning
in Partial Fulfillment of the Degree
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ABSTRACT

Large-scale urban mixed-use projects continue to be among the most interesting and complicated forms of real estate development. Understanding the barriers in obtaining financing to them, as well as how trends and changes in the real estate capital markets over the past decade have affected their financing is the main purpose of this thesis. Major barriers to obtaining financing in the 1990s included substantially larger equity requirements than in the 1980s, entity design and single property type focus of REITs, and diversification, loan size, and standardization of process of CMBS. Consolidation and segmentation trends in commercial banking were evident, however their effects on financing opportunities were unclear at the time of this study.

Trends and changes in the capital markets during the 1990s have created a context for financing real estate projects that is quite different than that of the 1980s. Overall, lenders are much less aggressive than in the 1980s and volatility and a focus on liquidity and standardization are now important. The real estate capital markets of the 1990s offer many more options, contain many more players, and have become much more sophisticated and complex. The approaches to financing large-scale urban mixed-use development projects being taken by the three companies considered illustrate how financing in the 1990s seems to be less project specific and involve a longer-term strategy because capital sources often are financing organizations more than projects. They have adapted to, and leveraged, the changes in the real estate capital markets of the 1990s by employing strategies that include the greater use of equity, sharing of ownership, and use of securitized equity and debt. Public sector involvement in large-scale urban mixed-use projects is still an important component and likely will continue to be, as well as the participation of large private institutional investors such as life insurance companies and pension funds.

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Introduction: Purpose, Methodology, and Structure of the Paper

Purpose

The main questions posed by this paper are: what are the barriers to obtaining financing for large-scale urban mixed-use development projects, how have they been overcome in the past, and how have changes in the broader context of real estate capital markets over the past decade affected the prospects of such projects to be financed.[1]

Large-scale urban mixed-use development projects are among the most complex and interesting of real estate development projects. There is no research specifically on these questions as they are posed together and as efforts intensify throughout the United States to revitalize cities, understanding the barriers to obtaining financing for these projects and how they are being overcome today is highly relevant.

Methodology[2]

Interviews of developers, lenders, industry specialists and others were conducted in order to understand the current thinking and attitude about large-scale urban mixed-use projects and the problems obtaining financing for them. Some interviews focused in part on specific projects. Case study information was gathered through the Urban Land Institute Project Reference files to gain a basic understanding of such projects across the United States. Articles and books were collected to augment case study information and provide context for interviews. Finally, three companies engaged in mixed use development projects were profiled in an effort to understand current approaches to developing such projects, focusing on how changes in the capital markets over the past decade have affected their strategies.

Summary of Major Findings

This research revealed barriers that are a result of the complex nature of the mixed-use product, as well as barriers relating to changes the real estate capital markets during the 1990s. The major barriers to obtaining financing relating to the inherent complexity of the product included:

- risk of complicated construction and guaranteeing completion;

[1] Large-scale urban mixed-use project was broadly defined for the purpose of this research. The Urban Land Institute definition of greater than 500,000 square feet and containing at least three significant revenue-producing uses was a standard.
[2] Many sources wished to remain anonymous.

- complicated legal structure of easement agreements and covenants of operation;
- difficulty on the part of lenders in understanding the collateral before the project is built;
- ground leases, and;
- value creation leading to the involvement of public sector subsidies, that can increase the complexity of the financing package.

The major barriers to obtaining financing relating to changes in the real estate capital markets during the 1990s included:

- much larger equity requirements than in the 1980s;
- entity design and narrow, or single, property type focus of REITs;
- diversification, loan size, and standardization of process of CMBS, and;
- consolidation and segmentation trends in commercial banking.

Structure of the Paper

- **Chapter Two: Background:** Describes the current context of the large-scale urban mixed-use development-important trends. Land use, transportation, downtown revitalization, history of mixed-use, and current trend toward entertainment are discussed.
- **Chapter Three:** Explains barriers to obtaining financing for large-scale urban mixed-use development projects through interviews and two projects, Heritage on the Garden and Rowes Wharf.
- **Chapter Four:** Describes pertinent major trends and changes over the past decade in the commercial real estate capital markets, including the crisis of the early 1990s, REITS, CMBS, commercial banking consolidation, and events affecting traditional sources of capital. Identifies and frames the issues and barriers to obtaining financing for large-scale urban mixed-use projects.
- **Chapter Five:** Three development companies are profiled to illustrate current approaches to large-scale urban mixed-use development, discussing how the capital markets have influenced their strategies. Companies include Forest City Enterprises, Inc., Post Properties, Inc., and Millennium Partners, Inc.
- **Conclusion:** Summary of trends and predictions for prospects of financing large-scale urban mixed-use projects in the future.

Chapter Two: Background

Since the 1950s, large-scale mixed-use development have been viewed as an important part of the solution to the problem of declining urban cores. More recently they have been heralded as an antidote to urban sprawl and environmental problems currently being experienced by cities across the Unites States such as poor air quality due to increasing use of the automobile.

The accessibility of public and private sources of financing for mixed use projects has been critical to the creation of such projects and can be viewed as existing within a context of national and regional development patterns and trends. This chapter will present trends most pertinent to large-scale urban mixed-use development projects and discuss how they have affected attitudes toward these projects and their implications on future opportunities to finance them.

Transportation, Land Use and the Environment

Downtowns have traditionally played multiple roles in communities and economies in that they have been a primary source of employment, have had an agglomeration of retail, have been centers for arts and culture, and have contained much of a region's housing. However, since World War II there has been significant suburbanization of metropolitan areas in the United States. In 1950, 57 percent of the populations and 70 percent of the employment and 40-45% of the employment of metropolitan areas were located in cities.[3] This dramatic shift was largely the result of an expanded national highway program and policies encouraging residential loans in suburban areas. Beginning in the 1940s, the adoption of land use policies promoting the separation of land uses, known as Euclidean zoning, promoted the opposite of mixed use development in suburbs across the United States in that it mandates single use buildings in single use areas.

Partly as a reaction to sprawling growth patterns, the loss of open space, and the decline of urban cores within metropolitan areas over the past 30 years, after each major growth period there has there has been a movement to control growth and prevent further sprawling. Such movements have taken different names including growth management, sustainable development, and most recently, smart growth.[4] These

[3] Edwin S. Mills, "Should governments try to control suburban growth?", *Chicago Fed Letter* (March 1, 1999), p. 1.
[4] Center for Real Estate Spring 1999 Members' Meeting, Massachusetts Institute of Technology, Donald Pickrell, U.S. Department of Transportation, May 13-14, 1999.

movements have focused on increasing development densities and protecting open space--in some cases through the use of urban growth boundaries--and using transportation systems more efficiently.

This trend has supported the notion of reviving the mixed-use development form in that such development can allow more density and reduce the number of automobile trips necessary for every day life by placing home, work, entertainment and supporting uses within close proximity. In urban areas there are active efforts to create, or recreate in some cases, places where this is true. In suburban areas this trend has manifested by the removal of single use, single area zoning and in its place the adoption of zoning that encourages a mix of uses on single sites.[5]

As a result of the trend toward suburbanization many metropolitan areas now have centers of employment and residences outside of the original core; the idea of having a traditional downtown that is the single central business district (CBD) for a region does not apply to most metropolitan areas today. In the case of older cities, particularly in the northeast part of the country, where this once may have been true, "edge cities" and other centers of development activity have appeared. In newer cities, particularly in the south and southwest parts of the country, where there may not have ever been a single CBD, there are often a few CBDs that are of similar size, such that no one center dominates. As a response to this many regional planning agencies view their regions as poly-centric and plan accordingly. This in combination with revisions to zoning codes that prevent mixed-use developments should provide new opportunities for future large scale mixed use development projects in that many nodes within a region will be increasingly viewed as locations appropriate for such developments.

In 1991, federal legislation, the Intermodal Surface Transportation Efficiency Act (ISTEA) was enacted. This has been described as a watershed act that tied investment in transportation infrastructure to air quality and the Clean Air Act Amendments CAAA (1990). ISTEA represented a shift in investment away from building as many new highways as in the past and toward a more balanced approach to transportation within regions, allowing more of a focus on transit and other forms of transportation. One of the main goals of the act is to provide the tools to better link development patterns and the transportation systems that serve them. One important result of ISTEA and CAAA is that many cities within the US have been required to create a schedule and plan to meet air quality standards and if they do not they are penalized by being denied federal transportation funding. Mixed-use development can

[5] Due to the difficulty of creating new zoning, in many cases a zoning overlay is used.

play a significant role in realizing these plans because such development can theoretically reduce the number of auto trips necessary, as well as the need to build more highways.[6]

Downtown Revitalization

The trend toward downtown revitalization has its roots in the public and private sectors dating from the 1950s when various government programs that supported public-private partnerships with the goal of downtown revitalization emerged. The use of funds from these federal programs, such as the national highway system and urban renewal, to rebuild cities was often influenced by private sector interests that desired improvement of health of the economic environments in which they were located.[7] Insofar as they contributed to achieving this goal mixed-use development projects were supported. Another important federal program that supported downtown development in the 1970s and early 1980s and contributed to the further development of public-private partnerships was the Urban Development Action Grant Program (UDAG).[8]

More recently, the past decade has seen a dramatic increase in the number of business improvement districts, non-profit organizations typically funded by voluntary tax assessments on businesses within the areas they serve, which has resulted in a new focus on the revitalization of urban cores across the country. These organizations often have private sector business leaders, including real estate developers, on their boards and represent one form of current involvement of private sector leaders in the revitalization of downtowns. They have increasingly become involved in planning efforts to redevelop central cities and will likely continue to improve the physical and policy environment in which large-scale urban mixed-use developments will occur.[9]

Mixed-Use Development History

The limitations of transportation in moving goods and people for distances over land made mixed-use development a "natural" condition in most urban areas in the world from medieval times until the Industrial Revolution. However, as cities became centers of industry, resultant noise, pollution and overcrowding in European and American cities inspired the idea that it was more healthy, comfortable

[6] In 1998, ISTEA was reauthorized as the Transportation Equity Act for the 21st Century (TEA-21) and if spent will represent the largest amount of investment in public infrastructure the US ever, 198 billion over 6 years, representing an increase of about 28% over the 155 billion authorized for 1992-1997.

[7] Bernard J. Frieden and Lynne B. Sagalyn, *Downtown, Inc.*(Cambridge: The MIT Press, 1989), p. 41.

[8] UDAG grants played an important role in many downtown projects during the 1970s and 1980s.

[9] BIDs have programs that range in scope from keeping the downtown clean and safe to capital improvements to business retention. Many conduct marketing programs to promote the downtown. BIDs represent an innovation that allows the non-profit and private sectors work together on common interests in cities.

and moral to live away from the city.[10] The suburbanization trends mentioned above ensued making mixed use development the exception rather than the rule for development overall.

The modern precedent for modern mixed-use development in terms of legal and financial structure was Highland Park, a retail mall that opened in Dallas in 1931.[11] It was located on a single parcel and had one owner. Over the next few decades, retail developers created many of the operational standards common today including, percentage leases, merchants' associations, tenant mix policies, joint promotions, and common area maintenance agreements.[12] The reciprocal easement agreement was created by mall developers, but was used later by developers of mixed-use projects that included uses other than retail to resolve operating issues.

In the 1960s, large mixed-use developments such as Penn Center, Constitution Plaza, and Charles Center were initiated by city governments or planning agencies.[13] In 1970, the Houston Galleria--a private sector venture--was built by the Hines Interests Ltd. Partnership and became a nationally known example of the "new mixed use project."[14] Retail was stacked on three levels and there were high rise hotel and office towers that fed directly into the lobby. During the 1970s, public and private entities built about 150 mixed-use and multi-use developments in the United States and during the 1980s about 400 such projects were built.[15] By this time, mixed-use development had become recognized as an important new form of development.

The attitude about mixed-use developments today is evident in the following quotation: "Multiuse developments are like diamonds for most cities. They enable single projects to convey the image of complete neighborhoods as adjacent properties share the sparkle."—Jim Kollaer, head of the Greater Houston Partnership.[16] This statement conveys the true admiration most people have for mixed use developments.

The final trend that bears mentioning is that toward entertainment based themes in mixed use development projects. This trend reflects the fact that although cities have lost large proportions of their housing and employment, they have remained centers of culture and entertainment. Cities are aware that

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[10] Jane Jacobs, *The Death and Life of Great American Cities* (New York: Vintage Books, 1961), p 18.
[11] A. Alexander Bul and Nicholas Ordway, "Shopping Center Innovations-The Past 50 Years," *Urban Land* (June 1987), pp. 22-25.
[12] *Ibid.*
[13] As mentioned above, many cities have tried to use mixed-use projects as ways to improve their downtowns. Examples of this are Penn Center in Philadelphia and the Prudential Center in Boston.
[14] Frieden and Sagalyn, *Downtown Inc.*, p. 73.
[15] "Mixed-Use/Multi-Use," *Urban Land* (March 1989) p54-56.

this is one of their greatest strengths and they are capitalizing on it. The incorporation of entertainment is recognized as a departure from the more traditional kind of large-scale urban mixed-use projects and represents a new typology that is yet unknown.[17] This lack of familiarity makes financing that much more risky.

During most of the 1980s the environment for financing large-scale urban mixed-use developments was quite positive, with many sizeable wealthy institutions investing large amounts of money in such projects and even offering reduced rates for financing.[18] However, the recession of the late 1980s and early 1990s and the consequent changes in the real estate capital markets profoundly altered this situation and today such projects are viewed as very risky and difficult to finance.

Chapter Three will identify and discuss barriers to obtaining financing for large-scale urban mixed-use projects as identified through interviews and two pre-1990s projects.

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[16] Nancy Egan, "Mixing it Up," *Urban Land* (April 1999) p.67.
[17] *Ibid.*p. 70.
[18] Dean Schwanke, *Mixed-Use Development Handbook* (Washington DC: Urban Land Institute, 1987) p. 113.

Chapter Three: Barriers to Obtaining Financing

This chapter will describe major barriers to obtaining financing for large-scale urban mixed-use development projects as identified through interviews and two pre-1990s projects, Rowes Wharf and Heritage on the Garden. Project information was obtained through ULI project reference files and interviews with individuals.

Barriers as identified through interviews:

The primary barriers identified through interviews with practitioners fell into three categories: legal, construction-related and value-related.

Legal Barriers

Ground Leases

Ground leases, which are common in cities because they allow cities to retain control over land, can be seen as a complication by lenders. This is particularly problematic when the lease is not subordinated to the first claim on the project (primary lender's position). In the case of an unsubordinated ground lease, where the lessor, the city in this case, retains the first claim on the improved site (the building plus the land) the building can be lost to the city in the event of default on the ground lease. So, usually ground leases are subordinated. However, in the case of certain uses, such as residential, a ground lease of any kind can cause great difficulty in obtaining financing because the buyer of the property will not accept the condition that the building will revert to city ownership at some point. Ground leases are usually very long—greater than 75 years—which serves to avoid concerns on the part of investors about ownership during the period in which they will receive returns on their investment.

Reciprocal Easement Agreements and Covenants of Operation

These legal agreements are an important aspect of mixed use projects because they determine how the building will operate, at what hours, how deliveries will be handled, and how movement of people and goods among the spaces will occur. For example, a corridor that connects a point of entrance to a hotel with a garage and that has retail uses along it will need to be accessible 24 hours a day for the hotel while perhaps only 10 hours a day for the retail use.

The agreements require expertise on the part of the developer in order to create them in an effective and timely way. They also call for familiarity on the part of the lender because they are complicated and perceived to add risk to a project; many lenders consider them to be a headache. This is partly because they define what the collateral for the investor is, which is particularly hard to understand before the building is constructed. The additional time in the development process needed to create the agreements increases the risk of the investor's position.

Construction-Related Barriers

Complicated construction and guaranteeing completion of construction is another issue for large-scale urban mixed-use projects. Such construction must be managed by an experienced team in order to avoid problems and budget overages. And, construction time for such projects is generally longer than for single use projects given the complexities of the building. In addition, developers often specialize in a particular type of real estate product, for example, residential or office[19]. This can be a problem with regard to assembling the necessary expertise to develop a mixed-use project. All of these factors add risk to the investment and can lead to trouble in securing construction and permanent financing for mixed-use projects at a price and loan to value ratio that make the project feasible for the developer.

Value-Related Barriers

Public Financing

Given the inherent risks and time delays mentioned above, large-scale urban mixed-use development projects often do not appear profitable at the outset when analyzed using a discounted cash flow approach. Therefore, in order to encourage such developments the public sector has developed a wide variety of subsidies to make them profitable. Tax abatements, tax increment financing, low interest loans, grants and land assembly are a few such subsidies. Public subsidies, also known as "soft" money, typically take a junior position to the primary lender for the project. However, if the project ends up in distress, the junior claims may cause some complication in resolving the deal for the first lender. In the case of public sector equity subsidies, due to the nature of the sources of such money, it is sometimes promised and not in hand at the outset. This can be problematic in that each source of capital for the project is waiting for the other, or worse, won't commit until the other does first.

[19] Also, leasing the different types of space requires diverse leasing experience on the part of the development team in order for the investor to feel confident in the project.

Market Timing

Market timing can also be an issue in the value creation of a project in that depending on the market demand conditions under which the project is developed, some uses may be expected to be leased or sold faster than others.

Environmental Contamination

Many urban sites in the United States have been in use for more than a century and have been home to environmental contamination producing activities. If a site has, or is expected to have, environmental contamination, investors in the project may either not be willing to invest in the project or the cost of the remediation of the site may render the project economically unfeasible.[20]

Projects

Rowes Wharf

Location	Boston, Massachusetts (financial district).
Developer	Rowes Wharf Associates (a Joint venture of the Beacon Companies and Equitable Real Estate)
Uses	1,111,500 square feet total (gross building area): • 330,000 square feet office • 230 room hotel • 100 condominiums • 12,500 square feet retail • 38 marina slips • docking space for 8 commercial vessels • 700 parking spaces underground
Total Development Cost (hard + soft costs)	193 million
Dates	Opened September 1987. Construction occurred February 1985-September 1987.

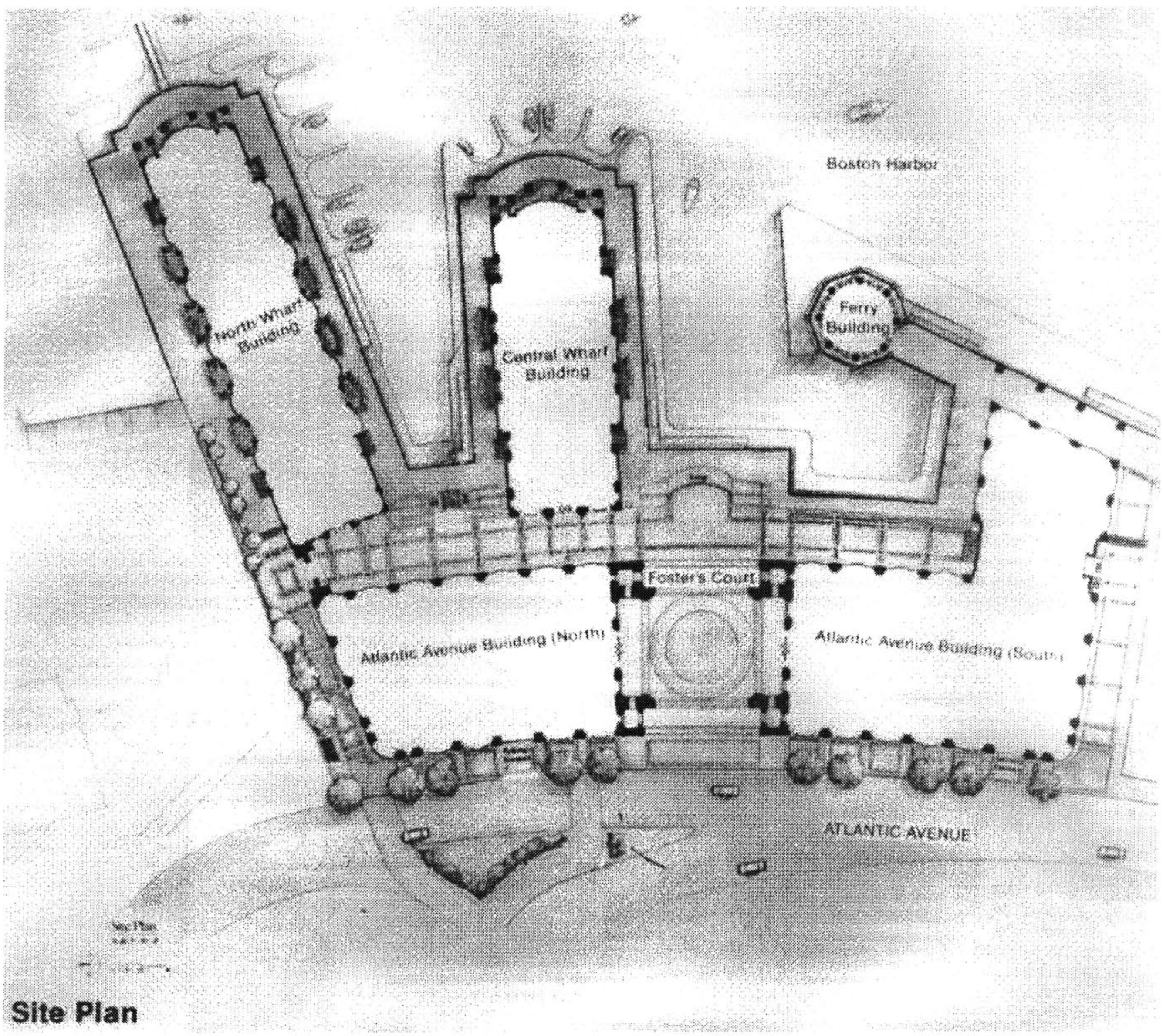
History and Design

The 5.4 acre waterfront site for the project, originally called Rowes and Foster's wharves, was part of an area designated for urban renewal in the 1960s by the Boston Redevelopment Authority (BRA) that had purchased it during that time as part of its Downtown Waterfront Urban Renewal Plan. In 1982 the BRA issued guidelines for evaluating proposals (guidelines included specific requirements for building height, density, uses, and public amenities). Rowes Wharf Associates and architect Skidmore, Owings and Merill, were chosen to develop the site.

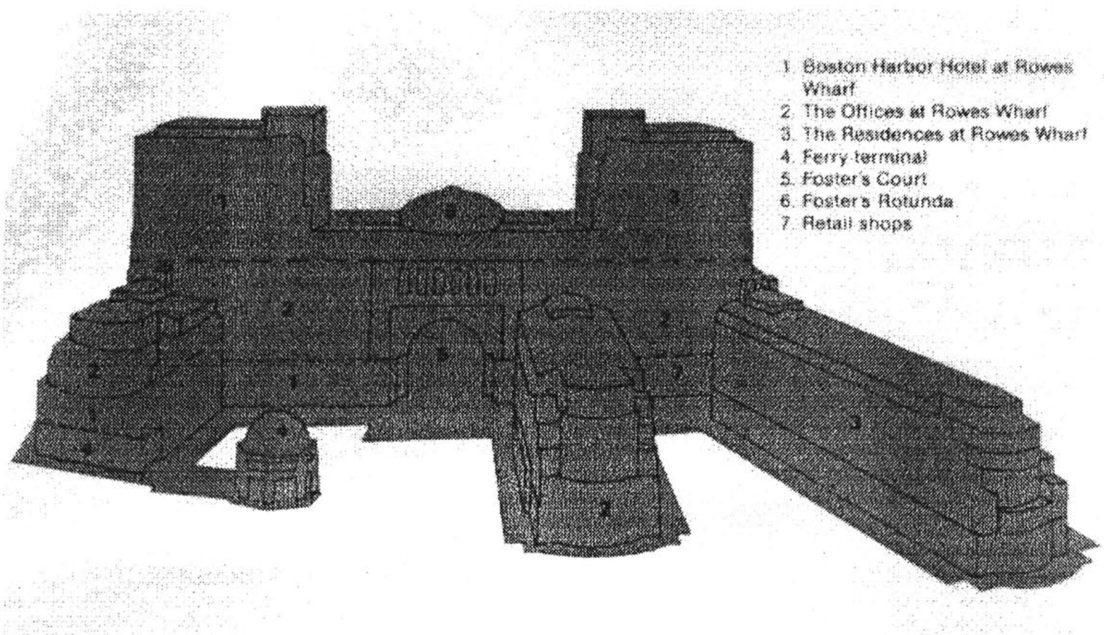
[20] Liability on the part of investors in such projects has also been a problem. Local, state and federal governments are trying to address this problem through laws for "brownfields."

The project consists of three buildings plus a ferry terminal. (See site plan and uses images on pages 16 and 17.) The main building, the Atlantic Avenue Building north and south, contains the hotel, condominiums, retail shops, and office space. The North Wharf Building contains condominiums and the Central Wharf Building contains office space. The uses are physically mixed yet the design allows for each to have its own identity. In addition to being heralded as a landmark project in Boston, the project is acclaimed for the design of its public spaces and waterfront promenades.

Rowes Wharf: Site Plan. Source: The Urban Land Institute Project Reference Files.



Rowes Wharf: Uses. Source: The Urban Land Institute Project Reference Files.



Barriers to Obtaining Financing

The Boston Redevelopment Authority wanted to maintain an ownership interest in the land, which led to a very complex set of business terms for the project. The project was undertaken with a single ground lease between the BRA and Rowes Wharf Associates. However, once the building shell was complete, the project was converted from a ground lease to a condominium project created by a master deed in which the BRA as landowner and Rowes Wharf Associates as building owner are codeclarants. The condominium contains a hotel unit, an office/retail unit, and a reserved residential unit. Using purchase money notes, Rowes Wharf Associates acquired the fee simple ownership of the reserved (residential) and hotel units, however the office/retail unit will remain as a leasehold between the BRA and Rowes Wharf Associates until the year 2065. The hotel could not have been financed using a ground lease and the residential units could not have been marketed effectively.

For Rowes Wharf, the challenge of building on a narrow land and water site and building quickly enough to make the project financially feasible led them to choose to use the up/down method of construction. This method allows the simultaneous excavation and construction of below grade levels and construction of the steel superstructure, saving time and using less space.

Heritage on the Garden

Location	Boston, Massachusetts
Developer	The Druker Company, Ltd.
Uses	469,336 square feet total (gross building area): • 131,000 square feet office • 53,896 square feet retail • 212,000 square feet residential (condominiums) • 72,440 square feet parking
Total Development Cost (hard + soft costs)	85 million
Dates	construction April 1986-August 1988

History and Design

Similar to Rowes Wharf, Heritage on the Garden was built on land that was owned by the BRA as part of an urban renewal plan and is considered to be a result of "public/private" cooperation. The Druker Company, Ltd. was selected to be the developer through a competition held by the BRA in late 1983. However, unlike Rowes Wharf, The Druker Company, Ltd. has a fee simple interest in the land, which had to be purchased on a parcel by parcel basis. There were nine separate parcels; the developer negotiated purchases of eight independently and the city used powers of eminent domain to assist in acquiring the ninth parcel. Assemblage of the land took two years.

Heritage on the Garden is located on the Public Garden in Boston and therefore, its design was subjected to very high standards by both the city and the community in which it is located. The three primary uses of office, retail and residential were carefully designed to work together while maintaining separate identities. This is achieved partly by physical separation, with residential and office entrances on opposite sides of the building and retail shops opening onto the street (sidewalk). (See site plan on p. 20.)

Barriers to Obtaining Financing

Market timing was the primary barrier for this project in securing financing. The issue was one of market demand (perception of demand) in that the lenders were not confident that the condominiums would sell at the prices the developer would be asking. In order to mitigate this problem Westinghouse was asked to act as a "standby lender" that would pay of the Bank of Boston loan if needed. This also was the reason AT&T was brought in as a 50 percent equity partner. Ironically, the condominiums sold very quickly. This issue has changed as a result of market performance over the past 10 years with the result being that certain property types have been in and out of favor depending on their performance.[21]

Financing for Rowes Wharf and Heritage on the Garden

Rowes Wharf

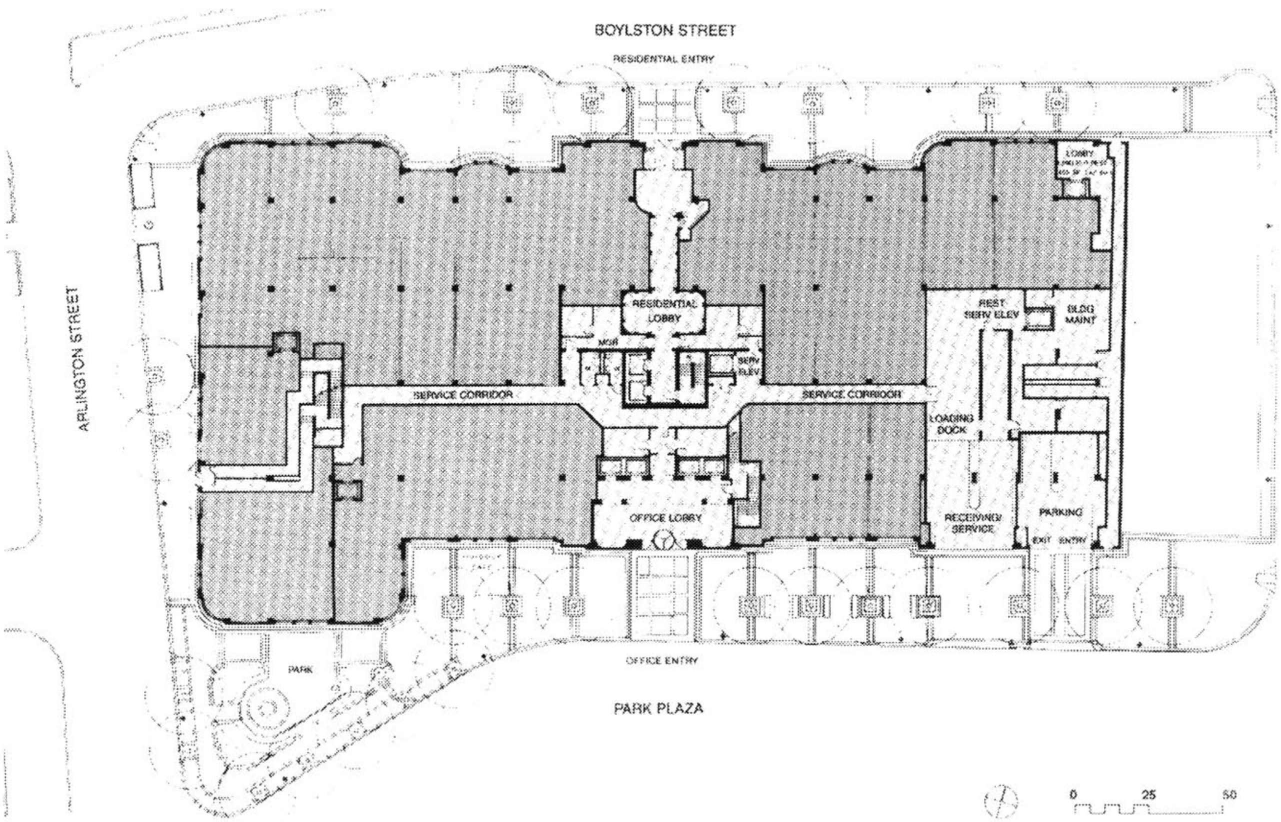
Though this project is considered to be the product a "public/private" partnership, there was no public sector financing the form of debt or equity. However, the project did benefit from a ground lease for part of the site, which allowed the developers not to have to finance the land up front. The project was financed through a 50/50 joint venture between Beacon Companies and Equitable Real Estate. Equitable provided construction financing and Bank of New England provided permanent financing (syndicated).

Heritage on the Garden

Allstate Life Insurance provided the permanent financing for the office and retail portions of the project and Bank of Boston provided the construction financing. AT&T (pension) was a 50% equity partner in the project, however today The Druker Company, Ltd. owns the project entirely. The financing was conservative at the time (developer owned 50% of equity).

[21] The fact that mixed use projects have different uses with different risk profiles (performance) and therefore theoretically have a less volatile cash flow (and hence lower risk) than some single use projects, should appeal to lenders.

Heritage on the Garden: Site plan. Source: The Urban Land Institute Project Reference Files.



Site Plan

Summary

The barriers discussed including complicated construction and legal framework and value creation (market demand) are still relevant today, but are set within the context of a much more complicated framework for financing. Several interviewees thought that Rowes Wharf would not be developed in the current environment. And the developer of Heritage on the Garden suspected that it would be financed differently today.

These two projects are typical of 1980s financing in that they used traditional sources of debt and equity. Construction debt financing was provided by commercial banks and equity was provided by "blue chip" private institutional partners. Both were very likely highly leveraged—probably much more so than they would be today. Overall, typical of the 1980s, the financing for these projects was less complicated than it would be today.

In Chapter Four changes in the capital markets since these two projects were financed will be discussed and new barriers that have emerged as a result will be analyzed.

Chapter Four: The Commercial Real Estate Capital Markets

It is clear that the problems of the last real estate recession in the late 1980s and early 1990s have had a very large impact on the way those investing in these projects view them today, as well as what sources are providing capital for projects and how they function. In this chapter, a brief overview of how real estate development is financed will be given, followed by a description of major sources of financing, and finally a discussion of trends and important events that have shaped the environment for financing over the past decade. Explanations of the resultant barriers to financing large-scale urban mixed-use projects will be included. Trends were drawn from both interviews and secondary research.

How Real Estate Development is Financed

Real estate development is financed with debt and equity, first for construction and then for the permanent financing package. Equity represents an ownership interest in the development while debt is a contract for the use of funds which requires a complete return of all moneys and considerations, such as interest payments or participation payments, over a specified period of time.[22] Debt investors have the first claim on the cash flows generated by the development and, therefore are considered to be in a less risky position than equity investors.[23] Equity investors typically require a higher rate of return given their more risky position.

Construction financing is more risky than permanent financing because during construction the project is not generating cash flows from rents and is priced accordingly, that is requiring a higher rate of return than permanent financing. Payment of the construction debt and equity investors is supposed to occur once the project is built, with the permanent financing paying off the construction lender. Therefore, the construction financing is subject to the risks of development and leasing.

While construction loans are typically short, usually 1-3 years, permanent financing for commercial real estate are longer, in the range of 10-30 years.[24] The difference in lengths and risk and return profiles between construction and permanent financing leads to them being supplied by different types of

[22] Edward Starkie, "Smart Development Program: Financing and Capital Sources." Portland: Leland Consulting Group, 1997. p. 2.
[23] Debt is typically non-recourse meaning that beyond the real estate asset, the lender may not pursue the borrower for repayment. This protects the other assets of the borrower.
[24] Professor David Geltner, University of Cincinnati, MIT class notes Fall 1998, Real Estate Finance and Investment.

investors with preferences for longer or shorter time horizons and lesser or greater amounts of risk and hence returns. For a description of the major sources for construction and permanent financing see below.

Investment in commercial real estate development can be indirect or direct. Indirect investment is conducted through an institution (intermediary) that actually places the investment while direct investment is placed directly into the project, often through a broker.[25]

Public and Private Sources of Financing

An important distinction between public and private investment in real estate is that investors in public sources of capital are investing in securities--stocks and bonds--and are very information sensitive, while investors in private intermediaries, purchasers of life insurance for example, are not usually aware of the investments at all. This results in very different constraints on those actually placing the investments from public and private sources of capital. This will be discussed below.

Major Private Institutional Sources of Debt and Equity [26]

1. **Commercial Banks.** These intermediaries are depository institutions with short-term liabilities and hence a desire for short-term assets. Therefore, they tend to fund debt for acquisition and construction. Also, they tend to know their local markets.
2. **Thrift Institutions.** These intermediaries are also depository (a major one for individuals) and include savings and loans associations, mutual savings banks, and credit unions. Before 1982, savings and loans were limited to investment in residential mortgages. After 1982, as a result of deregulation began to invest in commercial real estate. They also have a short time horizon. These have become less important in the 1990s.
3. **Life Insurance Companies.** These intermediaries have a long-term horizon for investments and hence tend to invest in permanent financing for commercial real estate.
4. **Pension Funds and Endowments**. Tax-exempt intermediaries that provide both debt and equity for development. They typically have longer-term liabilities and hence a longer time frame for their investments.

[25] Terrence M. Clauretie and G. Stacy Sirmans, *Real Estate Finance: theory and practice* (New Jersey: Prentice-Hall Inc., 1999), p. 6.
[26] Geltner, class notes.

Some other private sources of debt and equity.

1. **Opportunity Funds**. These are typically a source of equity. They have become more prevalent over the past decade and have been well positioned to act opportunistically buying when prices are low (properties undervalued). Currently, as the real estate fundamentals for the space market are strong-- supply and demand in relative balance-- they have tended to use a value creation strategy by repositioning class B space.
2. **Other sources:** Wealthy individuals, developers, foreign investors.

Major Public Sources of Debt and Equity[27]

Equity Real Estate Investment Trusts (REITs)[28,29]

REITs are entities formed under the rules of the Real Estate Investment Trust Act of 1960 that are designed to invest in real estate properties. Several criteria for being a REIT that are important to understanding their investment activity are:

1) they must distribute 95 percent of net annual income (net cash flow);
2) at least 75 percent of assets must be real estate loans secured by real estate, mortgages, shares of other REITs, cash or government securities;
3) they must derive at least 75 percent of gross income from its real estate related investments and;
4) REITs may not engage in short-term speculative transactions.[30]

History and Background

Though REITs were authorized in 1960, they were not a significant factor in real estate investment until the early 1990s.[31] Severe lack of liquidity and access to capital in the early 1990s was the primary impetus behind the REIT boom of 1993-1994.[32] Many real estate owners/operators were financially distressed and were not able to recapitalize their real estate assets due largely to a lack of private capital that had resulted from the disappearance of limited partnerships that had formed in the 1980s to benefit

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[27] This chapter discusses public capital market sources of financing, real estate investment trusts (REITs) and commercial mortgage backed securities (CMBS), as compared to public sector, or government, financing which is described, but is not a focus.
[28] Clauretie, *Real Estate Finance*, p. 427.
[29] Richard T. Garrigan and John F.C. Parsons, *Real Estate Investment Trusts: Structure, Analysis, and Strategy* (New York: McGraw-Hill, 1998) p.94.
[30] REITs must meet a 30 percent gross income test, which states that no more than 30 percent of gross income in any one year may be derived from the sale or disposition of stock or securities held less than one year, real property (including mortgages) held less than 4 years, or from prohibited transactions (that is, property held for sale to customers in the ordinary course of business, or "dealer" sales). The Taxpayer Relief Act of 1997 repealed the 30 percent gross income test, however there are provisions that prevent REITs from engaging in short-term speculative transactions.
[31] Garrigan and Parsons, *Real Estate Investment Trusts*, p.xiii.
[32] Professor Timothy Riddiough, Massachusetts Institute of Technology, class notes Spring 1999, Real Estate Capital Markets. p. 27.

from tax shelters in real estate.[33] In addition, for many, selling their property would have caused large tax liabilities as they had very little basis left in their properties. The creation of the umbrella partnership real estate investment trust (UPREIT) allowed such owners to avoid tax liabilities by trading their properties for operating partnership units that would not be taxed until converted to stock, sold, or the underlying real estate asset was sold.

The 1986 Tax Reform Act included a REIT "modernization" clause that was another important factor to the growth of the REIT industry because it allowed them to manage strategically and therefore assist them in creating franchise value based on the skill of their management teams.

During the REIT initial public offering boom of 1993-1994 eighty-one REITs formed.[34] Many were successful in paying off debts and launching acquisition programs that allowed them to grow very quickly and hence, REITs were originally marketed as growth stocks.

REIT Capital Structure

Generally the capital structure of REITs consists of equity in the form of shares and debt that is either secured (property specific) or unsecured.[35] REITs have developed strategies for value creation. Many REITs began with debt of 30-50% of total assets, but have levered up over time.[36]

Some REITs have been able to establish unsecured credit facilities that are based on the overall value of the company that allow them flexibility in financing projects.[37] This method of financing represents a departure from how many of these companies functioned in the 1980s before becoming REITs. In the case of development, financing today is often not driven by the characteristics of particular projects alone-- the company's entire portfolio can affect how they finance specific projects.

Commercial Mortgage Backed Securities (CMBS)

CMBS are securities that are collateralized by commercial mortgages.[38] They are created from pools of commercial mortgages that generate cash flows that are tranched, creating in the most simple case two classes of securities, senior and junior (subordinated). The pool is rated by a rating agency that helps to

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[33] This was in part because they were no longer able to use losses in the real estate investment to shelter their personal income relating to changes in the passive activity losses permitted by law. In addition, accelerated depreciation and lengthened the depreciation period were eliminated that had made tax shelters successful.
[34] Garrigan and Parsons, *Real Estate Investment Trusts*, p.12.
[35] Issuing unsecured debt is a recent trend and involves being rated by the rating agencies. Riddiough, p.67.
[36] Riddough, class notes, p. 27.
[37] Scott Muldavin, "The old and the new dominate real estate finance today," *Real Estate Finance* (Winter 1998), p. 4.

determine what level divides these two (or more), that is, what percentage of the offering is AAA, AA, A, BBB, BB, B, and unrated (the most risky). The senior tranche with a rating of AAA has very little risk and is priced accordingly requiring a small risk premium, while the junior tranches are more risky and require a larger risk premium (return). The different tranches are purchased by investors interested in a particular risk and return profile and thereby match preferences with products. Conduit lenders originate loans with the intention of securitization.[39]

History and Background

Similar to REITs, CMBS only became a significant factor in the capital markets as a result of problems that occurred during the last real estate recession. They became successful only when borrowers had few alternatives for borrowing due to the absence of private lending. As important perhaps was the dramatic decline in value that real estate assets underwent during this that allowed the private sector to achieve a high enough return on the sale of CMBS to cover start up costs while making a profit. Finally, the federal government assisted the creation of the CMBS market through the Resolution Trust Corporation (RTC).

The RTC was formed by congress in 1989 with the charge of resolving the crisis resulting from the insolvency of hundreds of federally insured savings and loans associations. Among the responsibilities of the RTC was the disposition of a 2,514 commercial real estate mortgages that had been owned by savings and loans institutions.[40] These loans were sold in bulk and at steep discounts. In addition, the RTC assisted the development of the CMBS market by familiarizing investors with commercial asset backed securities and thereby broadening the investor base.

Although the early CMBS market was developed as a way to sell already existing loans, during the early 1990s before access to private debt capital returned, the CMBS conduit market emerged in which loans are originated with the intention of securitization.[41]

Public Sector Investment

The public sector has been very important in the financing of large-scale urban mixed-use development projects over time. Due to "value creation" problem discussed in Chapter Three, as well as the desire to see these developments happen, cities have used a variety of public finance tools including tax increment

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38 These mortgages are for permanent financing and often have a 10-year term.
39 Conduits can be investment banks, mortgage banking organizations, and other types of lending organizations and institutions.
40 Leon T. Kendall and Michael J. Fishman, *A Primer on Securitization* (Cambridge: The MIT Press, 1996), p.66.
41 Riddough, class notes, p.126.

financing, tax abatements, low interest loans, grants, land assembly and other forms of subsidy to support these projects.[42]

Important Trends and Barriers to Large-Scale Urban Mixed-Use Development

The real estate recession of the late 1980s and early 1990s led to dramatic changes in sources of capital for real estate with the dramatic emergence of REITS, CMBS and private opportunity funds and the reduced participation of other traditional sources such as savings and loans, insurance companies and pension funds. Savings and loans continue to be much less significant while other traditional sources such as insurance companies and pension funds have returned to play significant roles in real estate finance. Today, both public and private capital are accessible and must compete on price. The issue is which is less expensive at any given moment.

Trend: More Conservative Lending

One response to the crisis in the early 1990s was a focus on the part of regulators for regulated financial institutions such as savings and loans, banks, and insurance companies on more stringent underwriting standards and to require larger capital reserves for certain types of investments.[43, 44] This has created a disincentive to hold whole loans in portfolios in many institutions. The general trend has been toward more conservative lending practices.[45]

For these reasons, some practitioners interviewed thought in the early 1990s that institutions such as insurance companies and pension funds would not longer own commercial real estate directly, but rather invest through REITs and CMBS in order to increase the liquidity of their investment positions. However, this has not happened to the extent anticipated and such institutions still represent a large proportion of direct investment in commercial real estate.

Barrier

Today, lenders require more equity. This barrier is largely the result of the more conservative lending practices among all institutions as a reaction to the last recession. Whereas, in the 1980s developers could in effect create equity that was not actual dollars that lenders would accept, for example by arguing

[42] Friedan, *Dowtown Inc.*
[43] J. Thomas Black, "The Restructuring of Commercial Real Estate Finance," *ULI On the Future: Urban Growth-Development Prospects and Issues* (Washington D.C: The Urban Land Institute, 1994), p. 75.
[44] Black, p. 82. It was thought that the risk based capital reserve requirements would lead to more indirect investment through REITs and CMBS in real estate because they would have to keep large reserves for direct investment versus small reserves for indirect investment.
[45] "ULI 1999 Real Estate Forecast Supplement," *Urban Land* (May 1999), p. 23.

that the land in the project had increased in value by virtue of the fact that it was being developed, today a requirement of 30% actual equity is not uncommon. In the 1980s, projects could be financed at 120% and more of cost with 1.05 debt service coverage. However, today 1.20 or greater debt service coverage is typical. [46] This barrier will affect all large projects, and because these projects are among the largest, often costing many tens of millions of dollars to build, will perhaps as a group feel this new constraint more intensely than other types of projects.

Capital Source[47, 48, 49] (market values in billions)	**Debt-1993**	**Equity-1993**	**Debt-1998**	**Equity-1998**
REITs	--	20.4	--	@125
Commercial Banks	367.8	--	@500	--
Insurance Companies	194	47	@200	37 (in 1997)
Pension Funds	39.4	120	23 (in 1997)	133 (in 1997)
CMBS	@33	--	202.5	--
S&Ls	130.7	--	97 (in 1997)	--
Other private sources	--	NA	--	229 (in 1997)

Trend: Securitization

Although traditional sources of capital have not abandoned direct investment in real estate, securitization of real estate finance is perhaps the biggest change from the 1980s. Equity REIT market capitalization grew from about 20.4 billion at the end of 1993 to around 125 billion in 1998. [50,51] However, despite their large growth, as of March 1997 REITs only represented about 6.9 percent of total investment in commercial real estate.[52] CMBS passed insurance companies in market share for the first time in 1998 for debt claims with 202.5 billion.[53] And, conduits have become the largest source of CMBS—in 1997 they issued 60% of CMBS.[54] The most pertinent trends in the CMBS market are toward standardization of the process and the decreasing size of pools and individual loans.

Another part of the trend toward securitization is that some life insurance companies and pension funds have begun creating their own securitization programs.[55] For example, Teachers Insurance Annuity Association-College Retirement Equities Fund (TIAA-CREF) has developed a CMBS conduit program

[46] Geltner, class notes.
[47] Geltner, class notes.
[48] ULI, "ULI 1999 Real Estate Forecast Supplement," *Urban Land* (May 1999)
[49] Black, *ULI On The Future, Urban Growth: Development, Prospects and Issues.*
[50] "ULI 1999 Real Estate Forecast Supplement," *Urban Land* (May 1999), p. 17.
[51] Black, *ULI On The Future, Urban Growth: Development, Prospects and Issues*, p. 84.
[52] Geltner, class notes.
[53] "ULI 1999 Real Estate Forecast Supplement," *Urban Land* (May 1999), p. 19.
[54] Howard Esaki and Joseph Philips, "Conduits: the new landscape for CMBS," *The Journal of Lending and Credit Risk* (January 1998), p. 14.
[55] Steve Bergsman, "Insurers and CMBS," *Mortgage Banking* (February 1999), p. 1.

for smaller loans. A difference between these and other conduits is that these companies lend for their own portfolio, unlike investment banks.

For commercial banks securitization has been a factor mainly among the largest which are developing CMBS functions.[56] A survey published in 1997 indicated that only 25% of all banks claim to be substantially or very substantially involved in capital markets and securitization, mostly origination, with 75% claiming limited or no involvement.

Barriers Relating to Securitization

REITs

REITs have thought to not be good vehicles for development in general, but rather better for buying and holding. This is partly due to the 95% payout rule which prevents REITs from accruing large retained earnings that can be used to finance development. Furthermore, REITs are prohibited from acting as "merchant" or "fee" developers, developing and selling properties right away. One implication on development activity is that REITs must be very strategic about what they develop and how long they intend to invest in the development.

Another constraint to development REITs is the fact that development ties up capital and doesn't contribute to FFO[57] quickly, which can lead to a lowering of stock price. The even longer lead time for mixed use development exacerbates this problem. Trust on the part of investors in the development capabilities of the REIT can mitigate this barrier. However, it is a big problem for those without a proven track record.

Another barrier is property type focus. As part of their business strategies most REITs have a property focus (office, apartments, hotels, retail, etc.) Many have sold assets that don't fit into strategy.[58] Some think this will change while most others do not. Focus on particular property type may preclude getting involved in large-scale urban mixed-use projects.

[56] Sally Gordon, "Will it be different this time?," *Mortgage Banking* (July 1997)
[57] FFO--funds from operations-- is the measure investors use to evaluate the growth of the company.
[58] An example of this is the sale of the mixed-use property One North State Street in Chicago.

REIT Volatility

Today REITs are thought to not be growth stocks, but rather mostly income stock with an appreciation component. This realization was in part responsible for the correction in prices in REIT stocks this year, and now consolidation is expected because many are priced below net asset value (NAV). This is an example of volatility that will affect whether or not equity is raised and projects are financed at given points in time.

CMBS

Investor demand for CMBS is the primary impetus for the design of the debt instrument, not the borrower. This means that the process for loan production is geared toward the borrower perhaps less than in the case of traditional lenders. Among the disadvantages to the borrower are less flexible contracting, no relationship lending, price instability, and lost bargaining power in financial distress.[59] Interviews indicated a dislike of CMBS by developers relating to the perception of the cost being higher than for traditional sources of capital and unreliability due to volatility.

Standardization has been critical to increasing volume in the CMBS market, however for mixed-use projects that are unique, the underwriting of which may not lend itself to a standardized approach, this trend represents a barrier.

The longer lead-time in developing such projects can be a problem in that it may be difficult to arrange permanent CMBS financing early enough in the project to help secure construction financing. Furthermore, currently, it is much easier to secure CMBS financing for "seasoned" assets than for new development for which there is no performance data.

CMBS Diversification

Research thus far seems to indicate that it only takes about 20 loans within a pool to achieve diversification,[60] however, if the average size of a mixed use project loan were >50 million, a pool size of at least one billion would be necessary to diversify away risk. The trend seems to be away from these very large issuances for the moment anyway. Plus, finding the loans in a timely way seems unlikely—it is time consuming to put together the financing (pool). Finding 20 such projects at the right stage given the complexities seems unlikely.

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[59] Riddough, class notes.
[60] Riddough, class notes.

CMBS and Types of Loan Pools

Homogeneous pools of loans appeal to the investors in risky tranches because they tend to know a lot about the underlying assets, which allows them the opportunity for a big upside if the pool performs well. Heterogeneous pools are more appealing to those investors invest in AAA who will perhaps devote fewer resources to understanding the underlying asset (such as large institutional investors). The point here is that investors drive the price of the securities and those that are selling for the most will be those most in demand. So, if heterogeneity is a sought after quality then that has the potential to be good for mixed use. And this depends on how the market for CMBS evolves in that if information and sophistication increase, prospects for mixed-use loans could improve.[61]

CMBS Volatility

In the early fall of 1998 the CMBS market suffered a "blow-up" due to turmoil in Asian and Russian financial markets and the consequent effects of hedge funds and mortgage REITs going out of business. Loans that were warehoused at the time lost value and caused major conduit lenders to go out of business. This is an example of the increased volatility in commercial real estate capital markets today as compared to a decade ago. Partly as a result of this, smaller and more frequent offerings to reduce the inventory carrying risk have been a recent trend.[62] This trend is not good for mixed-use given their large capital needs.

Trend: Smaller Loans

Another trend among sources of capital seems to be a trend toward smaller loans in general across institutions. This is important when considering large-scale projects, which are among the most capital intensive real estate investments. As an example, Teachers Insurance Annuity Association-College Retirement Equities Fund (TIAA-CREF) is a pension fund that specializes in larger loans, but that one interviewee heard are reducing the maximum amount they will invest in one project. And, a survey of 35 life insurance companies by the Mortgage Bankers Association of America at the end of 1997 found that the maximum commercial mortgage size desired was 20 million, with a preference for deals of 12 million dollars or less. [63,64] Conduit loans are also getting smaller, partly due to the loss of Capital America (formerly Nomura), a conduit lender that had been making very large loans.

[61] In the case of Water Tower Place, which performed well (and became a "seasoned asset"), it was refinanced using CMBS at a time when traditional financing was probably more expensive. This is an example of interaction between CMBS and mixed-use. The hotel was not included.
[62] "ULI 1999 Real Estate Forecast Supplement," *Urban Land* (May 1999), p.21.
[63] Steve Bergsman, "Insurers and CMBS," *Mortgage Banking* (February 1999), p. 5.

Barrier

This trend creates a barrier for large-scale projects because it makes it necessary to amass more sources of financing for single projects.

Trend: Consolidation in Commercial Banking

Another important trend in the capital markets over the past decade is that of the consolidation within the commercial banking industry that has been happening since the mid-1980s.[65] The number of banks in 1980 was over 14,000, while in 1997 it was about 9,000. This was perhaps the most talked about change among borrowers of construction money interviewed. Interviews indicated that the emotional component in lending to one of these projects is important. Whereas, when there were more local sources borrowers might easily come into contact with them and sell them on the project, today it is likely that those lenders are no longer headquartered locally and as a result are less accessible. This trend serves to physically distance lenders from projects making it harder for them to understand and relate to them. And, construction lending at a distance is recognized to be a very risky proposition.[66]

Barrier

Consolidation coupled with decreasing loan sizes and caps adopted by institutions, which do not always rise after consolidation effectively reducing the total amount of money available, will reduce options for the financing of large projects. And although debt should perhaps be priced according to risk, there is fear among those interviewed that reduced competition will result in higher costs to borrowers, who are choosing among commercial lenders and not other sources of capital. Interviewees indicated that this trend will likely affect smaller developers negatively while larger developers may stand to benefit as they are familiar to the lending sources and in fact are more sought after.

Trend: Segmentation in Commercial Banking

There has also been segmentation and occurring within the banking industry.[67] Global and national/super regional banks have been focusing more on public real estate companies and corporations, whereas, regional banks are retaining their commitment to developers. And regional banks seem to be shifting

[64] Scott Muldavin, "The old and the new dominate real estate finance today," *Real Estate Finance* (Winter 1998), p.7.
[65] Scott R. Muldavin, "Does size matter? Trends in real estate finance and operations," *Real Estate Finance* (Fall 1998), p. 3.
[66] A recent example is the Fleet Bank Boston merger. This trend in combination with the trend toward smaller loans will likely also contribute to the difficulty in putting together a group of banks to finance projects.
[67] Sally Gordon, "Will it be different this time?," *Mortgage Banking* (July 1997), p .11.

focus to larger operators that are financially stronger than in the past and toward better capitalized projects and geographically diverse projects.

Barrier

It is not clear what this trend will mean for large-scale urban mixed-use projects. It may create barriers to financing for particular developers in that it may lead to difficulty in amassing necessary sources of financing for large mixed-use projects given banks preference for a specific type of developer or geographic area.

<u>Trend: Globalization</u>

Globalization of the real estate industry is also a factor in the 1990s.[68] While certain countries, such as Japan, had significant investments in commercial real estate in the 1980s but today are less significant, others have become important. More importantly, events in other countries that did not significantly and immediately influence real estate capital markets in the past today are extremely important in capital pricing and availability.

Barrier

Mixed-use projects must be financed through increasingly complex and fast paced capital markets.

Conclusion

Among to most significant new challenges in financing large-scale urban mixed-use development projects in the 1990s are that more equity is necessary and that sources of capital are more numerous and complicated.

Commercial banks are still a very important source of construction financing and as they consolidate and become segmented, and in some cases specialized in the sense that they prefer certain kinds of developers and projects, may become increasingly less well suited for financing large-scale urban mixed-use projects. Further, as loan sizes and allocations from other institutions decline it will likely become more difficult to amass the necessary capital to finance these projects. And, the volatility associated with securitization of real estate capital markets will affect the availability and pricing of capital on a daily basis.

[68] "ULI 1999 Real Estate Forecast Supplement," *Urban Land* (May 1999), p. 15.

REITs are not well designed for development and adding the constraints of strategy makes them even less well suited for developing mixed-use projects. Similarly, CMBS, due to smaller loan sizes and pools (diversification) and standardization of the process, in its current form is also not well suited for mixed-use development—this is especially true for new development. The growth of these capital sources may present a challenge in financing these projects.

Sources that likely will be most important in the near term are private institutional ones such as commercial banks, pension funds and insurance companies.

Chapter 5 will profile three development companies engaged in mixed-use development projects to understand how they are addressing the issues today and what the impact of the changes in the capital markets has been on their strategies for obtaining financing.

Chapter Five: Three Mixed-Use Development Companies

This chapter will consider three companies involved in the development of large-scale urban mixed-use projects. Their strategies for financing mixed-use development project will be discussed with a focus on how trends and events in the real estate capital markets described in Chapter Four have affected them. Trends and barriers highlighted in Chapters Two and Three will be included as well.

It seems that there are three ways the following companies have responded to conditions in the real estate capital markets of the 1990s. They have either adapted to the changes by altering old strategies, leveraged the changes by taking advantage of new opportunities that have arisen as a result of them, or done some combination of the two. The following profiles will focus on which response each company has made and why.

Forest City Enterprises, Inc. (FCE)

History and Background

Forest City Enterprises, Inc. is a three generation family company. Founded in 1921 as a private company, FCE has been publicly traded since 1960 and is a vertically integrated national real estate development and management company. The Ratner family owns about 60 percent of the company. FCE's primary growth strategy is through real estate development.

Forest City Enterprises has four business groups. The commercial group, which represents 65% of total assets, develops, acquires, owns and operates shopping centers, office buildings and mixed-use projects, including hotels. The residential group represents 22% of total assets and began apartment acquisition in 1992. The land group represents 3% of total assets and owns and develops raw land into master planned communities and other residential development for sale. And, the lumber trading group, which conducts lumber wholesaling, represents 6% of total assets.

As of April 1999, FCE owned approximately $3.1 billion of property at cost and was active in 21 states and Washington, D.C. The corporate headquarters is located in Cleveland, Ohio and there are regional offices in New York, Boston, Los Angeles, Chicago, Portland, Tucson, Detroit, Washington DC, and San Francisco.[69]

Strategy in Developing Mixed Use Projects

FCE has had a focus on urban mixed-use development since their inception in the 1920s. More recently have made a major foray into downtown entertainment. They are an early example of the trend toward securitization of the real estate industry in that they went from a private company to a c-corporation over thirty years ago. FCE's approach to dealing with the conditions in the real estate capital markets of the 1990s has been to adapt its traditional approach to financing mixed-use development.

In determining how much debt will be needed for a particular mixed-use project, FCE analyzes each use separately in assessing what level of debt service each could support. Then they consider them together to assess the overall performance of the building, with the idea that they may use cash flow from one use to subsidize debt service for another if necessary given market conditions once the project is built. In this case, diversification among uses within one structure has been an attractive quality of their projects to lenders.

Equity: Institutional Investor Partners Strategy

FCE has developed a strategy of syndication in order to maximize its equity capital. They have financed many projects this way and plan to continue to do so. A typical syndication involves the following steps:

1) FCE enters into a partnership agreement with the syndication partner(s);
2) the partner(s) contribute all or a substantial portion of the equity required for the project;
3) FCE develops the property;
4) FCE obtains non-recourse mortgage financing and;
5) invests the required equity. The syndication partner is often a large institutional investor and their substantial equity is what allows Forest City to reduce its equity requirement.[70]

It seems that this strategy has allowed them to adapt to changing conditions in the real estate capital markets. In using this strategy, over the past 10 years it appears that they have basically relied on

[69] Merrill Lynch & Co. Global Securities Research & Economics Group, "In-depth Report: Forest City Enterprises Inc.," *United States Real Estate/EquityREITS*, (April 8, 1999), p. 5.
[70] *Ibid.*, p. 17 .

institutional investors being available and when there were none, such as in the early 1990s, they just waited.

Debt: Traditional

Though FCE is highly leveraged, they have taken measures to limit their exposure to risk in arranging their debt financing for projects; they only borrow on a non-recourse basis, they do not cross-collateralize their loans, and they do not offer corporate guarantees.[71] FCE has an overall corporate leverage of about 75%, high compared to their peer group average of 55% (and modest interest coverage of 1.5)." [72] During the 1990s, FCE seems to have had little interaction with CMBS. However, an example of their involvement with CMBS was in 1994 when Nomura Asset Capital provided FCE with a mini-permanent loan for a Brooklyn office project and then securitized the $127.5 million credit.[73]

Globalization

FCE has adapted to and taken advantage of the increasing globalization of real estate capital markets as demonstrated by the financing obtained for the two projects containing hotel, retail and entertainment uses in Manhattan that were undertaken by Forest City Ratner Companies (FCRC), FCE's New York affiliate. In 1997, they were anticipating that they would get proposals from a wide range of lenders including banks, insurers companies, and pension funds.[74] They ended up receiving the following:

Two Hotels, Embassy Suites at Battery Park City and Doubletree at 42nd Street:	**Battery Park City Retail/Entertainment:**	**42nd Street Retail/Entertainment:**
In 1998, Credit Lyonnais and Bayerische Hypo-und Vereinsbank, AG (Hypo) were co-lenders of $150 million in construction financing and $150 million in permanent financing was to be provided by Deutsche Bank, AG. [75]	In 1998, $32 million construction loan with a mini-permanent loan component from Credit Lyonnais and Hypo. [76]	In 1997, $68 million in the form of a 24-month floating rate construction loan followed by a 3-year mini-permanent loan from Credit Lyonnais and Bayerische Hypo-und Vereinsbank, AG (a bank). [77]

The hotels were to be developed as joint ventures of FCRC and Promus Hotel Corporation.

[71] Howard Rudnitsky, "Survivor," *Forbes*, (June 8, 1992), p. 48.
[72] "S&P Rates Forest City Enterprises Inc.'s Sr Nts BB-," *Business Wire* (March 10, 1998), p. 1.
[73] "Forest City Seeks Financing," *Commercial Mortgage Alert* (June 16, 1997), p.1.
[74] *Ibid.*
[75] "Forest City Announces Construction Starts and Financing of Two Major Hotel Developments," *Business Wire* (December 1, 1998), p. 1.
[76] *Ibid.*
[77] *Ibid.*

Recent Example of Traditional Permanent Financing: University Park at MIT

FCE was chosen to develop University Park at MIT in 1984, a 27 acre land development project, that will have almost 2 million square feet when completed.[78] FCE has 75 year ground leases, with MIT as lessor, and at the end of the lease the park will be turned over to MIT. FCE has tried to finance groups of buildings at University Park at MIT together, when development timing permits this approach, in order to achieve economies of scale in creating financing packages.

An example of recent permanent financing is that for University Park at MIT, Phase II which was provided from one source, a pension fund. This permanent financing was for the entire project, which includes 2 buildings with 2 ground leases from MIT because the two parcels are divided by a public street. This lender was comfortable with the legal complexities of such project and is known to have experience financing mixed-use projects.

Location	Cambridge, Massachusetts (MIT).
Project	University Park at MIT, Phase II
Uses	• 76,000 square feet office • 210 room hotel • 95,000 retail (includes a supermarket) • 950 space parking structure
Value	$80 million
Dates	Opened September 1998.

Some Conclusions about Forest City Enterprises

FCE has achieved a complicated financial structure, but not until recently have they used their ability to raise debt and equity in the public markets. Their positive performance and stock price and the overall conditions of the capital markets in the late 1990s likely has led them to do this. Within the past two years they issued 82 million in equity and 200 million in debt to fund their development pipeline.[79] This is yet another way FCE has responded to conditions in the real estate capital markets of the 1990s.

Post Properties, Inc.

Context: Atlanta, Georgia

Post Properties, Inc. is located in Atlanta, Georgia, a classically sprawling city that is becoming organized to combat sprawl. Time magazine has referred to Atlanta as the "fastest-spreading human

[78] Jill Gambon, "Watching over biotech: Gayle Friedland," *Boston Business Journal* (February 8, 1993), p.15.
[79] FCE raised 82 million in an equity offering in May 1997 and 200 million in debt offering in 1998.

settlement in history."[80] Downtown revitalization has become a main focus of this movement as a way to reverse the effects of sprawling development patterns, including poor air quality and traffic congestion. The trend is toward building projects where people can live, work and shop without the use of automobiles.

Many projects are underway in Atlanta that illustrate the urban redevelopment and environmental trend, and Post Properties is taking part in several of them. An example is a brownfields redevelopment project on the Atlantic Steel site located in midtown Atlanta that is planned to contain 6 million square feet of office space, at least 1500 residential units, 800 hotel rooms, and 1.5 million square feet of retail entertainment space. Post Properties, Inc. will build the residential component.[81] This project includes the construction of a bridge that is currently prohibited and will require an exemption from the U.S. Environmental Protection Agency to be built because the Atlanta region is in violation of Clean Air Act air quality standards and has no formal plans to correct the problem.

History and Background

Founded in 1971 by chairman and CEO, John A. Williams, Post Properties was created as a private company specializing in suburban upscale garden apartments.[82] Post Properties became a REIT on July 22, 1993 and bought Dallas-based Columbus Realty Trust, a REIT, in October 1997, partly as a way to expand beyond their southeast U.S. focus.[83] This acquisition added projects in Houston, Dallas, Denver and Phoenix to Post's portfolio. The company owns over 32,000 apartment homes.[84]

Williams was the first to recognize the importance of "branding," which has been a company strategy since 1971. Post changed its property type focus in the late 1980s from upscale suburban garden apartments to upscale downtown neo-traditional developments capitalizing on the trend toward downtown revitalization. Post built its first apartment building within the city limits of Atlanta in 1991, overcoming delays relating to a 99-year ground lease with the city.[85] They have also capitalized on the trend in urban entertainment.

The impetus for Post's urban strategy is value creation--they are attempting to create high-end unique properties that appreciate in value over time. Their latest concept is the "live-work-walk" community.

[80] Martin Sinderman, "Atlanta goes to town," *National Real Estate Investor* (April 30, 1999).
[81] Caroline Hubbard ,"Building Tomorrow's Development Today," *Shopping Center World* (May 30, 1999).
[82] Tony Wilbert, "Post Properties shifts gears to stay ahead in multifamily market," *National Real Estate Investor* (August 30, 1998).
[83] Randy Henry, "Top 10 apartment REITs," *National Real Estate Investor* (January 1998), p.18.
[84] And, as of 8/30/98, 5,800 were under development.

They have developed the high level of expertise that this type of project requires and have become experienced in working with city governments in financing their urban projects, many of which involve public subsidies such as tax abatements.[86,87]

In 1993 when Post Properties became a REIT, they were highly leveraged and expected to pay off significant debt with equity raised in the IPO.[88] They projected a 7 to 7.5 percent annual yield to investors, offered 9.2 million shares to the public and kept 9.4 within the company. At the time of the IPO, the skill of Post's management team and reputation as a quality apartment developer was expected to prevent the company's IPO price from being penalized because of their relatively high debt level.[89] Their investment time horizon is 10-15-years, the same as before becoming a REIT.

Capitalization[90]: $800 million in long-term debt, $1.0517 billion common stock (equity), .83 Debt/Equity. Market value $1.533 billion, 242 institutional holders (58.9%).

Strategy in Developing Mixed-Use Projects

Development is Post's primary growth strategy, which is unusual for a REIT. Some interviewees remarked that apartments are less risky than other property types, and that this combined with the current strong national demand for apartments may help to make Post's development growth strategy possible. They have also been trying to standardize reciprocal easement and covenant of operations agreements to reduce development timed periods. In addition, Post has been very shrewd in its use of environmental issues to support their urban development projects.

Equity and Debt: Financing is Not Property Specific

Post Properties became a REIT during a time when access to private capital was very limited in order to take advantage of many attractive development opportunities. They have very successfully leveraged the trend toward securitization in commercial real estate finance during the 1990s. The company's good reputation in the capital markets and their strong financial performance and conservative management of their financial affairs have been reflected in their ready availability and favorable pricing of capital.[91]

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[85] "Post downtown is a go," *Atlanta Business Chronicle*, May 27, 1991, p. 1a.
[86] Tony Wilbert, "Post Properties shifts gears to stay ahead in multifamily market," *National Real Estate Investor* (August 30, 1998).
[87] Caroline Hubbard, "City tax breaks fueling downtown development," *Atlanta Business Chronicle*, May 21, 1999.
[88] David Rubinger, "Post prospectus yields pay, profits, plans," *Atlanta Business Chronicle*, May 14, 1993, p. 24a.
[89] *Ibid.* Article says many apartment developers are turning to the public markets as a way to raise capital and pay down expensive short-term debt.
[90] As of December 1998.
[91] Tony Wilbert, "Post Properties shifts gears to stay ahead in multifamily market," *National Real Estate Investor* (August 30, 1998).

As a REIT Post has been able to fund development (construction and permanent) debt and equity with non-traditional forms that are not property specific. They can raise equity through public offerings to finance equity needs for their development projects. And, they have been able to obtain very favorable ratings for their unsecured debt and preferred stock, allowing them to raise theses types of capital very cheaply. They have used such funds to pay off balances on revolving lines of credit that are supplied by groups of commercial banks, as well as secured debt if rates on such debt are higher.[92,93] They try to continuously improve the rate they must pay for debt this way.[94] Their merger with Columbus Realty Trust improved their credit rating because the market rewarded them for becoming better diversified.[95]

Partnership Strategy

In September of 1998, Post Properties and Federal Realty Investment Trust announced a new strategic alliance to "expand their mixed-use development pipeline and create development efficiencies which result in higher returns on investment."[96]

FEDERAL REALTY INVESTMENT TRUST
Headquarters: Bethesda, MD Initial public offering: $2.25 million, Sept. 1962 Portfolio: 51 retail centers totaling 11 million square feet.

They have formed this relationship for the purpose of building a series of projects. This will allow the two companies to benefit from each others' expertise in the development of two components of mixed-use projects—housing and retail. An example of the type of project they are undertaking together is one with the Metropolitan Atlanta Rapid Transit Authority (MARTA), a mixed-use project at MARTA's Lindbergh station that includes office, retail, apartment and condominiums.[97] By having their partner finance the retail use, with which Post has little experience, Post is reducing risk in financing mixed-use urban in-fill projects.

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92 "Post Properties Announces Receipt of Revolving Line of Credit Commitments," *PR Newswire* (January 27, 1995).
93 "Atlanta REIT Floats Debt," *Commercial Mortgage Alert* (September 30, 1996).
94 Barbara Martinez, "John Williams Chairman CEO of Post Properties," *Dow Jones Investor Network* (April 28, 1995).
95 "Post Apt Homes & Post Properties Ratings Affirmed By S&P," *Dow Jones Newswires: Capital Markets Report*, (December 29, 1998).
96 "Fedl Rlty/Post Ppties Venture-2: To Expand Mixed Use Devt," *Dow Jones News Service*, September 28, 1998.
97 Rob Chambers and David Pendered, "Atlanta Transit-Developer Deal Becomes Nation's First," *Knight-Ridder Tribune Business News, World Reporter*, January 27, 1999.

In summary, Post's success in financing urban mixed-use development projects using its REIT status to access capital has been based on the following:

1) positive company reputation and strong financial performance allowing relatively lower cost of financing overall;
2) maximizing the flexibility of sources of non-property specific-financing (public debt and equity), and;
3) their strategic alliance with Federal Realty Trust which provides them with complimentary expertise for mixed-use projects.

Millennium Partners, Inc.

History and Background

Millennium Partners is a private development company that formed in 1990 in New York City.[98] Their first and prototypical project, Lincoln Square, illustrates their "new concept" of the urban living and entertainment center.[99] The project consists of three buildings that contain over 1.7 million square feet of space including retail, movie theaters, health club, condominiums, extended stay hotel. The uses are stacked vertically in a way that maximizes the value of each use. For instance, retail uses are on the first two levels, entertainment and fitness are above these but visible from the street, hotels and office are next, with residences on the top to maximize views.[100] One remarkable aspect of Lincoln Square was that it was begun in 1992, a time during which little construction was happening, especially large-scale urban mixed-use.[101]

Millennium Partners has thirteen major projects either planned or under construction in San Francisco, Boston, Miami, Washington D.C., New York, Atlanta, and Toronto. These comprise over 13 million square feet. Millennium sees itself as revitalizing downtowns that are "just emerging from the national real estate slump of the early 1990s." Their project in Miami will be the tallest building in Florida. And in Boston, they are building the first new skyscraper in a decade. They have offices in New York, San Francisco, Boston and Miami.

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[98] "A development team for the next century. (Millennium Partners)(Company Profile)," *Real Estate Weekly*, November 27, 1996, p.11.
[99] "Millennium Partners Wins Bid to Build Luxury Mixed-Use Development at Battery Park City," *PR Newswire*, (January 22, 1999).
[100] Millennium Partners company brochure.
[101] The complex was completed and fully occupied in 1996.

Strategy in Developing Mixed-Use Projects

Strong sponsorship has permitted Millennium Partners to leverage conditions in the real estate capital markets in the 1990s by positioning themselves to take advantage of development opportunities. Strong vision of what could be along with the ability to convince U.S. and international sources of private financing to invest in them, has allowed Millennium Partners to build large-scale urban mixed-use projects very successfully in the 1990s.[102]

Christopher Jeffries, one of the three partners, describes their approach to development as opportunistic and claims that they will not overreach as many developers tend to do and will be done developing in just a few years.[103] "Our founding goal is to anticipate and respond to unique real estate opportunities with cutting edge concepts in quality developments," says Chris Jeffries.[104] "For each of its projects, Millennium Partners has relied on a combination of strong financial partners, conservative debt-to-equity capital structure, major corporate tenants committed to flagship presence, participation in tenant businesses, and a consistently superior level of quality." Since their inception, their goals have changed in that they would like to own more of the projects they develop.[105]

An important part of Millennium Partners' approach to their projects involves their tenants. Referring to them as "tenant-partners," through both joint ventures and innovative lease structures, Millennium Partners has redefined the traditional landlord/tenant paradigm by giving up some ownership and profit interest their tenants. They design dramatic highly visible custom spaces for these tenants. [106]

Lincoln Square

Their strategy in developing their first project, Lincoln Square was to convince each party involved that the deal made sense for them and then bring them together. The following quotation explains the approach they took to do this.

> "For Sony it was the chance to create a snazzy cinema complex. For Reebok and Sports Club L.A. it was the opportunity to build a premier gym. For JP Morgan it was the six floors of apartments to house visiting employees and guests. For

[102] "A Development team for the next century."
[103] Justin Fox, "Here's one developer who (maybe) knows when to quit," *Fortune*, (April 12, 1999), p. 32.
[104] "Millennium Partners gets infusion of new capital from Goldman Sachs & Co.'s Whitehall Fund and George Soros," *Business Wire*, (June 2, 1997).
[105] "The Justification for New Development," *Real Estate Review, Real Estate Capital Markets*, (Winter 1999), p. 15.

Goldman it was the top 11 floors of the building, which could later be sold as condos. That left Jeffries with just 21 floors (out of 47) to finance, which he did with help from a group of German insurance companies."[107]

Lincoln Center (see picture on page 45)

- 13-screen Sony Theatres multiplex containing 4000 seats and a 600 seat 3D Sony IMAX theater
- 250,000 square feet of retail space including Barnes & Noble and Tower Records superstores
- 140,000 square foot Reebok Sports Club/NY fitness and spa facility
- The Phillips Club, Millennium Partners' 200 unit extended-stay hotel
- 600 luxury condominiums in three residential towers

In the Lincoln Square project, they pre-sold the top of the building to Goldman Sachs, Sumitomo and Bill Zeckendorf for $450 a square foot. This space was later resold for $650-1000 per square foot.[108]

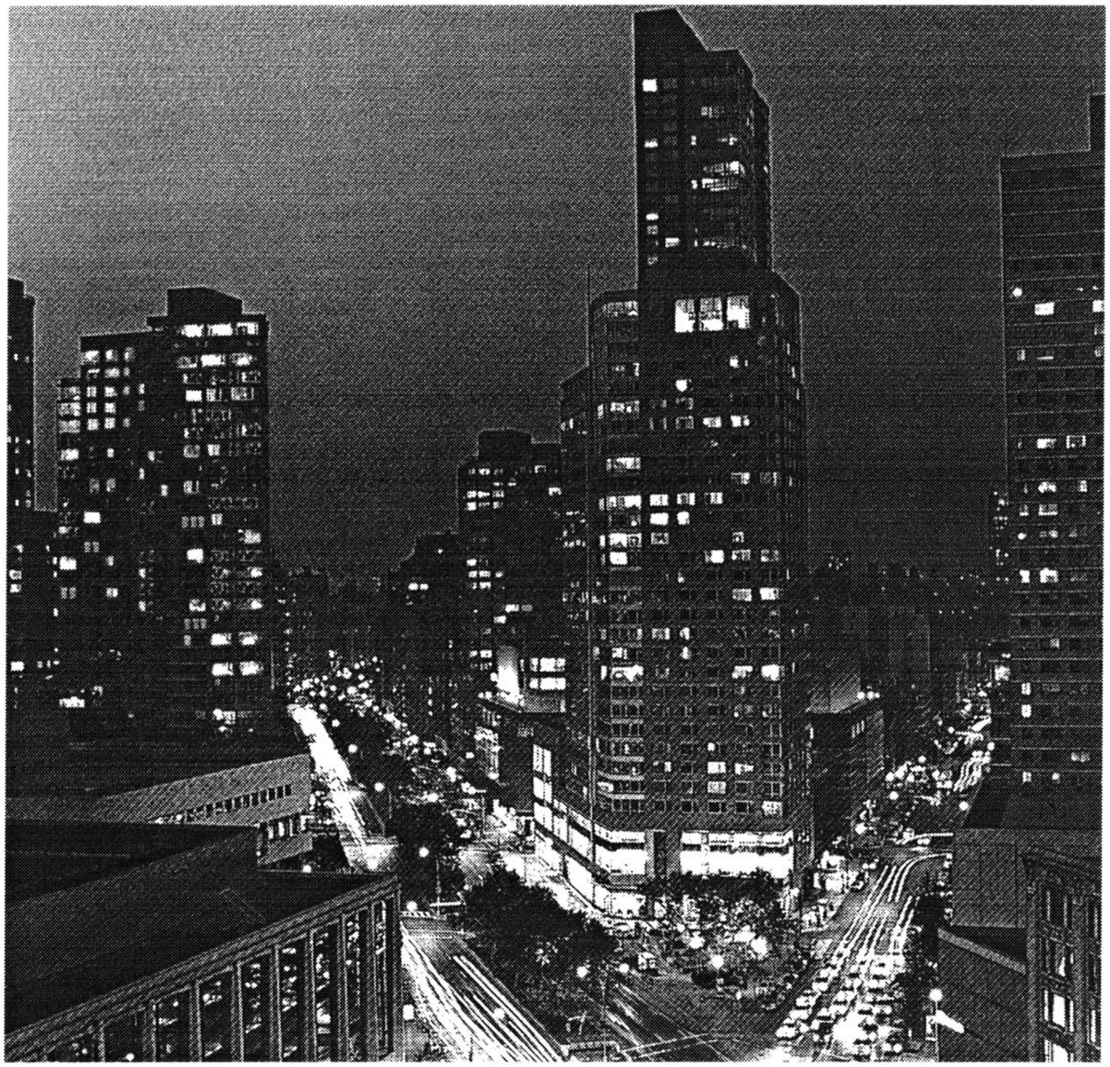
Tenant-Partners

Lowes Cineplex Entertainment, Sony Retail Entertainment and their affiliates are Millennium Partners' entertainment facilities tenant-partners. They are building urban and suburban entertainment centers with these partners. They are also helping to develop a new concept in "out-of-home" entertainment called the Metreon with these partners.[109] Sony Metreon's prototype is a 350,000 square foot technology-based retail, entertainment and restaurant destination. A Metreon project is planned to debut in San Francisco in 1999 and envisioned as part of future projects around the globe.

Reebok International, Ltd. and The Sports Club Company, Inc. are their health club tenant-partners. The Reebok Sports Club/NY is the prototype of the "urban country club" and is a joint venture of Millennium Partners and Reebok International and The Sports Club Company. Four Seasons Hotels and Resorts and the Ritz-Carlton Hotel Company, LLC are their hotel tenant-partners.

[106] Peter Slatin, "The Ground Floor: In A New Style of Syndication, A Developer Offers Tenants, Residential Buyers A Piece Of The Action," *Barron's*, (December 2, 1996), p. 48. (they have given up a significant ownership position)
[107] Justin Fox, "Here's one developer who (maybe) knows when to quit."
[108] The Justification For New Development Real Estate Capital Markets. Winter 1999, p. 16.
[109] Developed over a 4-year period at a cost of more than 100 million.

Lincoln Square. Source: Millennium Partners Company Brochure.



Millennium Partners Investment Team

Equity Partners	Lenders
VICTORIA Versicherungen, a member of ERGO Versicherungsgruppe AG Goldman Sachs' Whitehall Street Real Estate Limited Partnerships George Soros and Family Quantum Realty Fund Limited Provinzial-Versicherungsanstalten, Duesseldorf Wuerttembergische Versicherungsgruppe AXA Colonia Immobilien AG Citicorp Real Estate, Inc.	Fleet Bank Westdeustche Immobilien Bank Suedwestdeutsche Landesbank Girozentrale Sakura Bank Dresdner Bank Landesbank Hessen-Thueringen Girozentrale Landeskreditbank Baden-Wuerttemberg HypoVereinsbank BW of Ireland Chase Manhattan Bank
Tenant Partners	**Investment Advisor**
Sony Retail Entertainment Lowes Cineplex Entertainment, Inc. Loeks-Star Partners Reebok International, Ltd. The Sports Club Company, Inc.	TMW Immobilien Gruppe
Hotel Partners	
Four Seasons Hotels and Resorts The Ritz-Carlton Hotel Company, LLC	

For their "expansion," that is, their development strategy after completing the earliest projects, Millennium formed a new entity to provide a steady source of equity capital for current and future projects. The resulting financial structure includes Goldman Sachs' Whitehall Fund, George Soros and his Quantum Realty Fund, Citicorp Real Estate, Inc. and a consortium of German insurance companies led by VICTORIA Versicherungen as equity partners for the projects, as well as owners in the operating company. In 1997, 300 million in new capital was raised and in late July 1998, Millennium doubled its capital base with an influx of 327 million from Goldman Sachs, George Soros, Citicorp, and the German consortium.[110,111] They have mentioned that they might go to the public capital markets, but have not yet done so.

Some Conclusions about Millennium Partners

While the emergence of REITs and CMBS were in a sense the public capital markets response to the crisis of the early 1990s, Millennium Partners represents the private capital markets response. They have overcome barriers to developing large-scale urban mixed-use projects by adopting a strategy that includes a team of private investors, creative use of tenant relationships and a high level of equity. In their earliest projects as well as later, pre-leasing and pre-selling have been among their methods of mitigating

[110] Sallye Salter, "New York-Based Entertainment Development Firm Buys Atlanta Property," *Knight-Ridder Tribune Business News: The Atlanta Journal and Constitution*, (September 10, 1998).

financing risk. In Boston, they purchased a site already permitted as another way to mitigate development risks. Many believe that Millennium Partners has redefined the large-scale urban mixed-use project with their downtown living and entertainment developments.

Conclusion

Through the leveraging of, and adaptation to, trends in the real estate capital markets during the 1990s these three companies have developed new approaches to debt and equity financing for large-scale urban mixed-use projects.

FCE's strategy in developing mixed-use projects is based on their traditional approach to equity and debt financing that they have adapted to the capital markets environment of the 1990s by sharing their ownership interest projects. They are a highly leveraged public development company with a complicated financial structure. They have had to cope with consolidation, more conservative lending, and globalization of real estate finance. They have also capitalized on the trend in mixed-use development toward urban entertainment. FCE has had limited interaction with CMBS.

Post has truly capitalized on the many public capital market options available today. They are an example of a REIT pursuing mixed-use development as a primary growth strategy and demonstrates that REITs are overcoming barriers to such projects. Commercial bank consolidation has actually been good for Post. Because they are well known and respected nationally they receive calls from major banks interested in financing their development projects, as compared to smaller developers for whom consolidation seems to be a negative at the moment.

Millennium Partners Ltd. has both adapted to and leveraged the capital markets conditions in the 1990s. Their approach reflects the trend toward conservative lending in financing, as well as the trend toward downtown living and urban entertainment centers. For their financing strategy they represent the exception to the trend toward shorter time frames for real estate investment in that they have operated with a longer-term approach using the money of investors who are interested in longer investment time horizons. Many of their investors are international representing another example of how they have leveraged changes in the capital markets, in this instance, globalization.

[111] "Millennium Partners Doubles Capital Base With $327 Million in New Funding From Its Equity Partners," *Business Wire*, (July 14, 1998).

Chapter Six: Conclusion

Trends and changes in the capital markets during the 1990s have created a context for financing real estate projects that is quite different than that of the 1980s. Overall, lenders are much less aggressive than in the 1980s and volatility and a focus on liquidity and standardization are now important. The blow up of the CMBS market in the fall and the REIT correction that occurred in 1998 have demonstrated how public and private capital sources can be affected by global markets, making one or the other more expensive or inaccessible at a given point in time. And, as private sources of capital took the place of public sources in the Fall, it was demonstrated that available sources will change, creating opportunities for whichever source is the cheapest and most accessible. However, perhaps most striking is that the real estate capital market of the 1990s offers many more options, contains many more players, and has become much more sophisticated and complex.

The approaches to financing large-scale urban mixed-use development projects being taken by the three companies considered in Chapter Five illustrate how these projects are being developed today. Financing in the 1990s seems to be less project specific and involve a longer-term strategy in that sources are financing organizations more often than projects. They have adapted to and leveraged the changes in the real estate capital markets of the 1990s by employing strategies that include the greater use of equity, sharing of ownership, and use of sources of securitized debt and equity.

Trends in use, such as that toward urban entertainment, have affected what tenants are sought after by developers and accepted by lenders. Environmental awareness and a focus on downtown revitalization among cities seem to be supporting large-scale urban mixed-use projects, while trends toward securitization and consolidation appear to be negative. As securitization of real estate capital markets continues, financial asset securitization investment trusts (FASITs), may become important for these projects as they are an innovation in securities that will affect construction lending because they can contain non-performing loans, such as construction loans. Public sector involvement in large-scale urban mixed-use projects is still an important component and likely will continue to be. This is also true of the participation of large private institutional investors such as life insurance companies and pension funds.

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Aaron Schleifer, Department of Neighborhood Development, Boston.

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Belinda Walters, CFO Forest City Enterprises.

Brickstone Realty

David Gaw, CFO Boston Properties.

Edward Starkie, Leland Consulting.

Eric B. Sheffels, Leggat McCall Properties.

Jennifer Story, Duff & Phelps.

Larry Curtis, Winn Development Company.

Liberty Property Trust

Michael Buchannon, VP Commercial Real Estate, Bank of America.

Mellon Bank

Nancy Broderick, CFO Beacon Capital Partners.

Paul Sehnert, Ernst & Young International

Ronald Druker, President, The Druker Company.

Steven D. Fessler, Senior VP/Director of Acquisitions, Leggat McCall Properties.

R. Byron Carlock Jr., CFO Post Properties, Inc.

William Maher, Jones Lang LaSalle Inc.