

REAL ESTATE WEEKLY

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HERALD SQUARE PROPERTIES IN THE NEWS

Reid returns to give Lipstick Building new gloss

Years ago, Michael Reid, then a broker at commercial firm Landauer Associates, was hired to lease up Gerald Hines' curving granite and steel office building at 885 Third Avenue, prior to its construction.

Now, Reid and Gerald Nocera, both former chief operating officers of SL Green, are overseeing the revival of the property, commonly known as the Lipstick Building.

Reid and Nocera formed Herald Square Properties less than two years ago, working as an asset manager and soon, the two hope, a midtown landlord.

They were hired at the Lipstick Building by Irsa International and the Marciano Investment Group, the building's new owners, who took over the building at the end of 2010. Bernie Madoff was one of the building's former tenants.

As part of the restoration, Herald Square Properties hired Moed de Armas & Shannon Architects to redo the lobby, Gensler to design pre-built office space and a leasing team from Newmark Knight Frank to market the building.

"The goal for the building was to bring it back to its former glory days," said Reid. "So far, we've seen tremendous progress in the asset."

Reid said he expects the building to compete with spaces on Fifth, Park and Madison Avenues, particularly tenants of 3,000 to 7,000 s/f. Asking rents are around \$70 to \$80 per s/f. Around 50,000 s/f of the 636,000 s/f building is vacant, including the entire 33rd floor of almost 14,000 s/f available.

Herald Square Properties has been competitive in recent building deals, but is still looking to close on its first acquisition.

Reid said the group's strategy is targeting midtown properties where it can add value, particularly older buildings and those on side streets.

The model is reminiscent of SL Green's approach of reviving and sometimes flipping "tired" properties, he said.

"The goal is to gradually assemble our portfolio and gradually build," said Reid.

Reid and Nocera expected the midtown market to recover slower and bring more distressed properties to market, but the relatively quick rebound and worldwide capital interested in the area has made competition fierce, even for the duo's preferred size of 150,000 to 200,000 s/f.

Herald Square Properties is also the asset manager of 292 Madison Avenue, where it is enhancing the building's retail presence and implementing a prebuilt office program on two of the floors.

"They want to put their stamp on the building," said Reid of owner Metropolitan Investors. "There's a real opportunity to bring that building to another level."

The pre-built spaces specifically target 3,000 to 6,000 s/f

tenants, who are abundant NYU seeks parkland designation in the city, but move at last second and don't negotiate leases far in advance.

"Those tenants really want space they can move into right away," said Reid.

Reid grew up in Rye, N.Y., where he currently lives. He was always interested in finance, but studied at Yale Divinity School. Real estate's tangibility was a strong draw for him.

He began his career at Landauer Associates, which would later be purchased by Grubb & Ellis, working on Gerald Hines' Lipstick Building and 31 West 52nd Street, where he was part of a team that lured stock broker E.F. Hutton & Co. to become the anchor. Among his colleagues at Landauer was Glen Rufrano, now the CEO of Cushman & Wakefield.

Reid would then go to First Boston, co-developer of Tower 49, now the headquarters of Saks Fifth Avenue and Major League Baseball's Players Association.

In the wake of the 1987 crash, Reid joined Lehman Brothers at the trading desk, later moving to real estate. In 1997, he helped prepare

SL Green's initial public offering of \$200 million. The company's stock moved steadily upwards, and Reid would eventually join as chief operating officer.

The most important lesson from SL Green was the company having senior management involved in the real estate, giving the firm's leadership an intimacy with the buildings, even as it grew, said Reid.

His most memorable deal was SL Green's acquisition of 1515 Broadway, in the heart of Times Square.

The deal was negotiated in the aftermath of 9/11, and Reid was involved in obtaining terrorism insurance, a new element that whose standards were being developed.

There were also rumors that media giant Viacom, the building's anchor tenant, might buy it, which may have discouraged other competitors. The deal closed in May 2002 for \$483.5 million, announcing SL Green's status as a premier office landlord.

It partnered with Canadian real estate company SITQ Immobilier on the deal, and earlier this year, SL Green bought out SITQ's stake to take full control of the building, which is now valued at \$1.21 billion.

"It really was a signature deal for them," said Reid.

Although Herald Square faces challenges, it has strong financial backing and is targeting a middle part of the market that isn't dominated by the city's largest landlords, said Reid.

"We want to be like SL Green - play where they used to play," he said. "That part of the market, I think, is still fractured."

