



100 Church's Trip to the Auction

By Cody Lyon

NEW YORK CITY-S.L. Green Realty Corp. says it has taken over management and leasing of the 21 floor 100 Church St. in Lower Manhattan after owner the Sapir Organization, failed to make payments on around \$85 million in mezzanine cash it had borrowed from S.L. Green and Gramercy Capital. The company says the property is on the market, and will be auctioned October 15.

Earlier this month, Sapir had filed a lawsuit against Green and Gramercy that was subsequently withdrawn before going to trial. According to the court documents filed August 7, 2009, Sapir charged that both Green and Gramercy "deliberately prevented plaintiffs (Sapir) from satisfying the conditions precedent to an extension of the maturity date so they can rely on such failure in denying plaintiffs (Sapir) request to extend the maturity date and thereby seize the buildings for themselves."

Court documents show that, Wachovia was the original lender of 100 Church St.'s \$145 million underlying mortgage. Of that, \$85 million consisted of mezzanine loans. On August 9, \$60 million of that mezzanine debt was transferred to units of both Green and Gramercy. The court record says "on information and belief," the junior mezzanine loan portion of the cash, or the other \$25 million, was transferred to Prudential Real Estate Investors. The document says principal and unpaid interest was due August 9, 2009.

Sources familiar with S.L. Green explain that structured finance lending is in itself a good business, it is also a good way to invest first as a lender, but later, as an owner, if in fact, there ends up being foreclosure on properties they feel could be well invested in. Those sources say that whoever's controlling the mezzanine position in the black, are the ones who usually drive the process, hire the special servicer and end up being the owner in the auction process.

In the case of 100 Church St., an S.L. Green spokesperson tells GlobeSt.com that Green Loan Services, an S.L. Green unit, has been named special servicer and has hired Eastdil Secured to run the UCC foreclosure.

John Johnson, managing director and national auctioneer at Sperry Van Ness and Interstate Auction Co. in Atlanta tells GlobeSt.com "as long as the mezzanine lender continues to service debt to the primary lender, the primary lender will be happy to collect their payments and principal interest." He says, they're looking forward to a "full recovery of everything."

Ultimately, he adds, "that's why the mezzanine lender would step up to the table, thinking they can take and sell it for something in excess of the debt of the primary lender and still have something to pay him at least partial reimbursement for the amount he had lent to the owner when he forecloses."

And, he says if it's not an 'absolute' auction, "anybody, including the mezzanine lender, can bid on the property at the auction."

In its lawsuit, Sapir Organization said mezz lenders Green and Gramercy had stood in the way of its signing leases that would have qualified 100 Church for loan extensions. In its legal suit, Sapir had noted that the Claremont School, a Manhattan prep school, had agreed to sign a lease for over 255,000 square feet of space in the building, which would have been, at the time, the largest commercial lease agreement of the year.

But, the lenders were required to approve the lease within ten business days. Sapir charged in its suit that the mezz lenders engaged in a "ploy to evade the 10-day approval deadline imposed by the loan agreements." The Sapir lawsuit was withdrawn before going to trial. Sapir Organization told GlobeSt.com that it has no comment at this time.

Regardless, on July 24, the Claremont School signed a 20-year lease for 200,000 square feet at the Cunard Building at 25 Broadway.

A spokesperson for the Claremont School, Dinali Cagliastro, tells GlobeSt.com that "we are excited about growing the Claremont Brand at 25 Broadway and don't feel the need to address issues at any previous potential locations."