

Real Estate INVESTOR

A PUBLICATION OF WIEN & MALKIN SECURITIES CORP.

SUMMER 2002 VOL. IV NO. 3

Wien & Malkin Investors Acquire Empire State Building Fee Title After Four Decades of Owning Master Lease

On April 17th, Empire State Building Associates L.L.C., an investment entity created by Lawrence A. Wien and his son-in-law, Peter L. Malkin, and now led by Mr. Malkin, closed on the acquisition of the fee title to the Empire State Building. The event marked another momentous milestone for what is quite arguably the most significant real estate syndication of all time.

In 1961, the company acquired a 114-year master lease of the property, subject to an operating sublease with another entity in which Mr. Malkin is a member, and paid a fixed annual rent to the land owners. This is how the 102-story landmark has operated for the past 40 years.

Leap in Market Value

Because of the fixed rent on the master lease, the nominal market value of the fee title had remained essentially static over the years, even while the rents charged for its office space were rising dramatically.

It is remarkable that, the \$57.5 million paid by the investment partnership this spring is only \$16.5 million more than the cost of developing the world-famous tower 71 years ago. Now, however, because the fee and master lease ownership are in the same hands, the combined value has quickly risen by a multiple

of the price paid to purchase the fee title.

"Empire State Building Associates gives powerful testimony to the extraordinary potential of carefully considered syndicated real estate investment for the long term," says Peter Malkin.

"Acquiring the land under the Empire State Building presented a one-of-a-kind opportunity," he continues. "We offered the opportunity to participate in the purchase to the operating sublessee, which declined. We were able to place that opportunity in the hands of the investors in the master lease, thereby adding the value of full ownership to one of the groups Mr. Wien and I organized in 1961."

The fee title was purchased with 100% financing from North Fork Bank. Mr. Malkin notes that the ease with which the transaction was fully financed "further symbolizes the strength of the property and its ownership, and the confidence that the financial community has in both."

Mr. Malkin also points out that investors in Empire State Building Associates are able to enjoy the benefits of both 100% financing and conservative leverage, since the fee title purchase price is a small fraction of the property's market value.

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The Empire State Building design is a trademark of ESBC.

Investors Over-Subscribe Strategic Capital II LP



Wien & Malkin Strategic Capital II LP met with such enthusiasm that the offering had to be increased in size by

more than 33%, and still investors were allocated interests and a waiting list of several millions of dollars remained at closing. Investors have provided a major endorsement to the alternative investment concept introduced by Wien & Malkin two years ago.

Strategic Capital II closed at \$20.1 million after setting an initial target of \$15 million.

"The pace of subscription was

incredibly strong. More than \$4.5 million in expressions of interest were received within 48 hours of our posting of the investment summary to our accredited investors on our website," says Ned H. Cohen, vice president of Wien & Malkin Securities Corp. "We had to limit the fund size given our strict underwriting criteria. The right deals are difficult to find."

Mr. Cohen adds: "Every effort was

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Rodney Gomes: Minding the Bank For Wien & Malkin Investors

This article is part of an occasional series profiling those who fill key responsibilities on behalf of our investors.

As controller of Wien & Malkin, Rodney Gomes – who is responsible for your distributions and the cash management of Wien & Malkin investments – has seen technology almost completely transform banking and accounting procedures in recent years.



“We still hear joking references to the green ledger sheets accountants once used, but that’s ancient history to me,” Mr. Gomes says, adding: “We don’t work with anything green anymore, not even cash. It’s become totally electronic. I haven’t even visited a bank in years. We are truly on the cusp of a cashless society.”

Mr. Gomes says electronic deposits to investors are becoming accepted practice rather than the exception now for Wien & Malkin, “and they are executed by our own staff over secure internet connections, requiring no bank employee contact.” He points out that, in the past year, of the \$120 million of cash distributed to Wien & Malkin investors, more than \$20 million was paid through electronic transfer, up from only about \$4 million the year before.

“These direct deposits provide investors with immediate cash availability, since there is no need for a check to clear,” he says. “There are fewer trips to

the bank and no checks lost in the mail. Many of our investors are now requesting e-mail confirmations of their electronic direct deposits. They prefer the electronic confirmation so they can check on their investments wherever they are and not rely on the mail delivered to

their home or office while traveling.”

Record-keeping has changed as well, he notes, thanks to state-of-the-art accounting systems, in which software integrates cash management functions.

But some things within his purview haven’t changed at all. “We employ the same diligence and attention to detail as was always the case back in the days of the green ledger sheets,” says Mr. Gomes. “We’re glad to adopt the latest technology for the sake of efficiency and productivity, but in other respects we apply the same philosophy to cash management as we do to real estate investment.”

At any given time, Wien & Malkin has more than \$100 million under its supervision in the current accounts of the various investment partnerships. The money is invested almost exclusively

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Dependable Yields Keep Investors Free From Worries of Accounting Trickery

Isn’t it comforting to have an investment in which success is expressed as cash distributions rather than hype?

Amid the growing firestorm precipitated by stock scandals, a recent front page story in *The Wall Street Journal*, entitled “SEC Broadens Investigation into Revenue-Boosting Tricks,” made this disquieting statement:

“Questions about whether companies’ revenues are legitimate are spreading from industry to industry...”

Cash payouts cannot be faked. Last year, more than \$120 million in cash distributions were made to Wien & Malkin investors, continuing the dependable revenue stream to which those investors have been accustomed across several generations. The three mainstays of Wien & Malkin investments are the achievement, maintenance, and growth of current returns.

More and more investors appreciate the value and safety of a balanced, diversified portfolio that includes conservative, skillfully managed long-term direct real estate investments, such as those that Wien & Malkin has offered for almost 70 years.

Investor Q & A

Q. Given the marked success of Strategic Capital and the difficulty of finding suitable equity investments in today’s market, is Wien & Malkin abandoning its search for new acquisitions?

A. No, our primary focus is still on long-term equity investments. The high-yielding investments made by Strategic Capital, devised by Wien & Malkin to profit from today’s capital markets demand for short-term, structured equity, are short-term transactions that provide excellent cash-on-cash return, especially compared with today’s low interest rates in the money markets. However, they lack the defined opportunities for capital appreciation combined with dependable, partially tax-sheltered cash distributions and significant estate planning advantages of our long-term investments.

The Malkin family wants investments that make use of our strong management and marketing skills, which enable us to specialize in acquisitions to which we can add value for our investors. It’s a proven approach that has produced superior results, and we believe it’s in the best interests of Wien & Malkin investors to continue making it our primary focus.

At the same time, in the face of a lack of new acquisitions at sensible pricing, Strategic Capital offers a chance to put money to work at high yields for a short term while we wait for more favorable acquisition market conditions to return.

Investors Acquire Empire State Building Fee Title...

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The 2.25-million-square-foot Empire State Building is home to more than 800 commercial tenants. Construction began in 1930 on the site of what formerly were the separate Waldorf and Astoria Hotels. The new tower, the world's tallest at the time, opened the following year, with ceremonies that included a switch thrown by President Herbert Hoover.



Visitors to the 86th floor Observatory number in the millions annually.

The ceremonies were attended by a host of other dignitaries, among them many members of the corporation formed to develop the skyscraper. These included General Motors founder John Jacob Raskob and Pierre S. DuPont, president of E.I. DuPont de Nemours, as well as New York's former Governor and

Presidential candidate, Alfred E. Smith.

Over the years, the Art Deco building has attracted nearly 110 million tourists to its famed 86th floor Observatory, which has figured in the story lines of many films, most especially "An Affair to Remember" and "Sleepless in Seattle." The building is also famous for its lobby exhibits and many annual events, including The Valentine's Day Weddings and the Run-Up, a race up the stair cases from lobby to top of the building.

Information about the Empire State Building is available on the official website at www.esbnyc.com.



Lawrence A. Wien (left) and Peter L. Malkin at a 1981 party celebrating the 50th anniversary of the opening of the Empire State Building. The skyscraper-sized cake is from the Waldorf-Astoria, on whose original site the ESB was built.

ESB Transaction Illustrates How Investor Confidence Spurs Value-Added Initiatives

The Empire State Building fee title acquisition is a sterling example of the ongoing benefits of the leadership and successful deal-making of Lawrence A. Wien, continued by his son-in-law Peter L. Malkin, now with Mr. Wien's grandson, Anthony E. Malkin:

With the purchase of the land under the Empire State Building, existing Wien & Malkin investor groups once again have participated in a new transaction that has greatly enhanced the value of their original investment. It also vividly illustrates the confidence and cooperation of Wien & Malkin's long-time investors.

Seizing an Opportunity

"When we propose an idea and ask for quick action, the response is positive and immediate," observes Peter L. Malkin, chairman of Wien & Malkin LLP, Wien & Malkin Securities, and W&M Properties. "In this case, an investment entity that was four decades old and comprised thousands of investors acted swiftly and enabled us to seize an opportunity." (Please see story on page 1.)

Mr. Malkin points out that he and his

son Anthony have put the same process to work several times in recent years. He cites, for example, the participation of the partnership owning Merrifield Village Apartments in Virginia in the 2001 acquisition of First Stamford Place. Another example was the tax-efficient choice of a majority of the investors in 1185 Avenue of the Americas to take part in a swap program under Section 1031 of the federal tax code, providing them ongoing distributions from three new acquisitions.

"The trust shared among our investors is an essential ingredient in the success of these initiatives," says Anthony Malkin. "The Merrifield investors are already receiving increased distributions from their ownership interest in a second valuable asset without investing any additional out-of-pocket funds. What's more, they have acquired market and product-type diversification, all with no additional capital contribution.

"They knew from long-term experience that Wien & Malkin would invest their funds carefully in a quality asset with as

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River Oaks North Apartments in Rochester Hills, Michigan (top) and Ten Bank Street, White Plains, NY, are among the prime properties acquired in a tax-deferred exchange with proceeds of the sale of 1185 Avenue of the Americas, Manhattan.

Investors Over-Subscribe...

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made to accommodate as many investors who indicated a desire to take part. But it shows once again that speed in responding is essential to ensure participation."

The first Strategic Capital partnership, launched in fall 2000, raised \$15.8 million and was also over-subscribed. Its funds are invested in office buildings in Baltimore and Westchester County, N.Y., and in an extended-stay residential development on Manhattan's East Side backed by the credit of Marriott Corporation.

"We had to limit the fund size given our strict underwriting criteria."

Strategic Capital II, like its predecessor, will make structured-finance investments in modest-sized properties for periods of two-to-five years. The investments, usually in the form of preferred-equity with yields in the double digits, provide real estate entrepreneurs with bridge capital to cover special situations.

"Strategic Capital makes mezzanine financing accessible to smaller owner/developers with quality property and good track records."

Blind Pools Win Acceptance

Anthony E. Malkin, president of W&M Properties, says the enthusiasm for the Strategic Capital partnerships indicates that investors are willing to accept blind pools under the stewardship of Wien & Malkin and W&M Properties. The partnership offerings for traditional Wien & Malkin equity investments historically have been property-specific.

"We appreciate the strong measure of confidence implicit in the enthusiasm for Strategic Capital," says Mr. Malkin. "It opens the door to other types of innovative investment opportunities."

Note: This newsletter is not an offer to sell any investment. Such an offer can be made only by a Private Placement Memorandum to Accredited Investors registered with Wien & Malkin Securities Corp.

Rodney Gomes...

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in U.S. Treasury obligations with short-term maturities to ensure that funds are safe and available as needed.

Mr. Gomes began his career with Empire Blue Cross and Blue Shield as a rate adjuster in the hospital sector, but found the job too narrow and insufficiently challenging.

In 1987 Mr. Gomes accepted a staff accounting position with Wien & Malkin. "It was the proverbial breath of fresh air for me, joining a firm that was legendary in its field and brimming with creative energy," he recalls. "And, of course, it was the beginning of a great education in real estate."

Mr. Gomes gradually assumed more responsibility and was appointed assistant chief accountant in 1995, then given his current post two years later. In September 2001, Mr. Gomes earned the prestigious "W & M'y" – an annual award presented by Anthony Malkin to a Wien & Malkin employee who has demonstrated an outstanding combination of achievement, commitment, and growth.

A lifetime resident of the New York area, Mr. Gomes was raised in the Flushing section of Queens and earned a bachelor's degree from Queens College of the City University of New York. He and his wife, Terry, and 10-year-old daughter, Rachael, reside on Long Island.

Please let us know if you have family or friends who might be interested in learning about Wien & Malkin investments.

ESB Transaction...

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much value-added potential as their original investment presented."

1185 investors responded with enthusiasm when offered a pathway to boost the power of their investment by deferring taxes on capital gains from their sale of the leasehold on this Manhattan tower and invested the proceeds in a diversified portfolio of office, retail, and residential properties.

"In real estate, market conditions change and windows of opportunity open and close," says Peter Malkin. "By choosing timely action when required, our investors repeatedly have given us the means to make the most of favorable financing and acquisition opportunities. It's an outgrowth of the remarkable bond of trust between Wien & Malkin and our investors."

What's next in this line? Well, investors in MerrittView, a 250,000-square-foot turn-around office acquisition from 1994, may be able to make a new investment without having to contribute any new capital. "Based on the success of our upgrade and re-tenanting program, our existing lender is prepared to refinance the property, providing several million dollars to invest in a new property," says Anthony Malkin. "All we have to do is find an opportunity that meets our rigorous standards."

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