

Real Estate Intelligence

## Hedge Funds Cross The Hudson

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In a deal that neatly encapsulates the last several years of real-estate history and points to some of the trends shaping today's leasing market in the New York area, **Citco Funding Service** has agreed to a 15-year, 70,000-square-foot lease at Harborside Plaza 10 on the Jersey City waterfront.

Valued at \$23 million over its 15-year lifespan, the lease allows Citco, which bills itself as the world's leading hedge fund administrator, to expand from its midtown Manhattan headquarters, where it says it will also remain over the nine years left on its lease, into far less expensive space across the river. Managing Director **Jay Peller**, who says there are approximately 300 employees at the Madison Ave. office, envisions adding another 200 staffers when Citco moves in this June.

To complete the transaction, Citco had to maneuver through a paper trail covering the building's current owner, **iStar Financial** (nyse: [SFI](#) - [news](#) - [people](#) ), a Manhattan-based commercial mortgage REIT; its primary lessee, **Charles Schwab** (nyse: [SCH](#) - [news](#) - [people](#) ) and the company that bought a 280,000-square-foot chunk of Schwab's 575,000-foot net lease, **American Financial Realty Trust** (nyse: [AFR](#) - [news](#) - [people](#) ), a Pennsylvania-based REIT.

The first dozen years of Citco's lease are with sub-landlord AFR, which worked closely with iStar to make the deal happen. For the final three years, Citco will be leasing directly from iStar following the expiration of the Schwab lease, which American Financial, an aggregator of banking-related properties, acquired in 2004.

When AFR did that deal, the 280,000 square feet in the Schwab lease was completely vacant. New Jersey REIT **Mack-Cali** (nyse: [CLI](#) - [news](#) - [people](#) ) broke ground on the building at its Harborside office complex in March of 2001 expressly for Charles Schwab at the peak of the brokerage's pell-mell expansion days in the late 1990s. Mack-Cali, which spent \$123 million on construction, sold the property to iStar in 2003 for \$194 million; AFR is responsible for finding tenants for its Schwab sublease, and with the Citco deal has filled approximately half of that space.

Citco, which was represented by **CB Richard Ellis** (nyse: [CBG](#) - [news](#) - [people](#) ) broker Ken Rapp, scoured the lower Manhattan market and Jersey City in its search for what is essentially technology and operations space. Along with the fact that 40% of Citco's workers are New Jersey-based, what clinched the deal was a healthy combination of incentives from city and state, on top of an aggressive rent from American Financial.

Although parties to the deal declined to give specific rental numbers, market sources place Citco's starting rent in the low \$20 range (per square foot). Add in incentives, including a sales tax exemption from Jersey City that offers "significant benefits, especially in the initial year with bailout and equipment costs," says Jay Biggins, of Statdmauer Bailkin Biggins Strategies, a Princeton consulting firm. Biggins, who worked with Citco on obtaining a benefits package, also points to New Jersey's generous business employment incentives program ("really New Jersey's most potent competitive tool"). This program essentially returns a share of the personal income tax generated by employees to the company they work for. Biggins calls it a form of revenue sharing. The grants last up to 10 years, and recipient companies are required to make a 15-year commitment to the state.

But it wasn't just the incentives that brought Citco to the table, notes Peller. He says that American Financial, which spent \$2 million on adding power redundancy to the building after acquiring the Schwab lease, was "very proactive." Among other functions, the building will serve as a disaster recovery site for Citco's Manhattan and Toronto offices. "There are a lot of nice buildings downtown," says Peller. "We took a long look."

Just as the Schwab deal with Mack-Cali epitomized the upward trend of independent brokerages and the growth of individual investing at the end of the last decade, the Citco deal tracks the enormous growth of the hedge fund industry over the past few years. When Citco first took space at 350 Madison Avenue in 2000, says Peller, the firm had 20 employees. Today, as he prepares for the expansion move, he contemplates the complex agreement he's reached, involving two REITs, a brokerage house (Schwab still had to approve the deal), and city and state agencies. "It's a great property, and AFR is doing a lot of hard work in this building," he says. "I guess we're the ones who are paying. Someone has to, regretfully so."