

Real Estate INVESTOR

A PUBLICATION OF WIEN & MALKIN SECURITIES CORP.

SPRING 2004 VOL. VI NO. 2

Wien & Malkin Launches Strategic Capital III; First Investment Under Letter of Intent

Following the successful investment of the first two Strategic Capital blind pools, Wien & Malkin has launched the third in the series of partnerships that provide short-term and special situation bridge financing for real estate entrepreneurs.



Due to strong investor demand, Wien & Malkin

Strategic Capital III's (SC III) original \$15 million target has been increased to a \$20 million target, the same as SC II. Within 24 hours of the posting of its investor summary on wienmalkin.com, expressions of interest from our accredited investors totaled more than \$5 million.

As in the other SC partnerships, the funds will be invested as short-term preferred equity and/or mezzanine debt, at attractive risk-adjusted current yields. Unlike our traditional direct investments in real estate, Strategic Capital investments do not seek by their design to provide long-term capital appreciation and increased returns from improved operations, and to date have made only passive investments in opportunities generated by other entrepreneurs.

Opportunistic Investing

Although it will be a blind pool, SC III already has executed a letter of intent to make a preferred-equity investment of \$7.5 million to recapitalize 80 Broad Street, a 395,000-square-foot office building in lower Manhattan's financial district that sits across from the world headquarters of Goldman Sachs. SC III's Sponsor intends to bring in a participating investor to reduce SC III's share of this investment and maintain diversification within the fund.

SC III will target overall investment returns in excess of 10% annually. The limited partners will receive a 9% priority return on the partnership's invested funds.

"The Strategic Capital program is opportunistic investing with carefully designed safeguards," says George S. Perry, senior vice president and director of investments of W&M Properties.

"The SC program provides funding for qualified, experienced real estate owners in need of short-term capital above senior mortgage debt and below equity, for a variety of reasons. By maintaining discipline as we pursue and underwrite our investments, we are offering Wien & Malkin investors attractive, risk-adjusted returns."

Continued on page 4

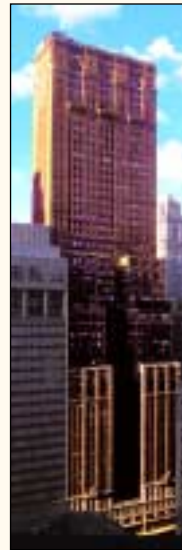
Wall Street Journal Cites Lincoln Building for Leasing Innovation

Wien & Malkin's proactive approach to property and asset management has again figured prominently in a Wall Street Journal report on commercial office trends. The recent article detailed how some owners are creating modern "pre-built" office suites to attract tenants who want quality space without the delay, expense and uncertainty of customized office build-outs.

The Lincoln Building was cited as an example, including a new tenant who praised the program. Because the space "was completely finished when I saw it, I didn't have to imagine what it would look like," said the entrepreneur, whose risk management consulting firm is one of the building's newest tenants.

Anthony E. Malkin notes that attractive, modern pre-builts also are being offered in other Wien & Malkin office buildings in Manhattan, and there is a growing demand for them.

Mr. Malkin says the Wall Street Journal



The Lincoln Building opposite Grand Central Terminal

article, together with other business media acknowledgments of Wien & Malkin's proactive style, "reflect the emphasis we place on leading the marketplace to achieve the objectives of Wien & Malkin investors. We stay ahead of the curve to create powerful competitive advantages," he says, adding:

"Our goal is to retain and attract tenants, and a big part of that is innovating and broadcasting our innovation to the markets. That leads to more tenants, and happy investors."

Early last year a Wall Street Journal column reported W&M Properties was boosting the quality of its tenant occupancies at First Stamford Place by monitoring the underutilization

of space leased by some tenants. Proactively relocating or modifying the leases of tenants that were not efficiently using all of their space, W&M was able to accommodate the expansion needs of a major tenant, Thomson Corp., one of the world's largest financial publishing and software companies.

Proactive Management Keeps 500 Mamaroneck Leasing as Large Tenant Prepares to Vacate

When a Wien & Malkin-led partnership acquired 500 Mamaroneck Avenue in suburban Harrison, NY, in the spring of 1999 – at a cost well below the 285,000-square-foot building's original asking price – it was anticipated that the largest tenant, AT&T, might be downsizing or perhaps not staying at all when its lease on some 125,000 square feet was scheduled to expire later that year.

AT&T was considering relocation to an under-used facility it owned in nearby White Plains. Although the telecom giant did renew at 500 Mamaroneck in late 1999, it was for a downsized 95,000 square feet, with a commitment to remain only through 2004.

"We always viewed the shorter-term nature of AT&T's leasing commitment as a potential upside opportunity, rather than as a problem," recalls Jeffrey H. Newman, W&M Properties executive vice president in charge of the suburban office portfolio. "We had a lot of leasing to do when we bought the property, and renewing AT&T reduced our exposure at that time."

AT&T recently decided to relocate its Harrison staff to White Plains in a

consolidation program. But W&M Properties was more than ready, having established a plan that not only anticipated



500 Mamaroneck Avenue in Harrison, NY

the vacancy but proactively accelerated AT&T's surrender, on an early "buyout" basis, of a portion of its leased space.

"We used a refinancing a few years ago to establish a reserve against costs we would face should AT&T leave the building," says Anthony E. Malkin, president of W&M Properties. "By creating a generous reserve fund, we were ensuring that we could complete all the leasehold improvements and common area upgrades that quality tenants expect of a premiere Class-A office property like 500

Mamaroneck Avenue, and still maintain distributions to our investors."

Once AT&T made known its decision, W&M negotiated for AT&T to buy-out its lease in staggered increments long before the actual lease expiration, while initiating a vigorous marketing program. "Happily, rents at 500 Mamaroneck have risen since 1999," says Mr. Newman. "Now we can upgrade these top-floor spaces with multiple, creditworthy tenants on longer lease terms with

staggered expirations, and at market rates enabling us to increase the rent roll.

"Demand for top-level office space for smaller and mid-sized tenants is very strong, and we are benefiting from the spillover effect coming from Greenwich and Manhattan as well," he adds. "Interest in our space was intense as soon as we began marketing efforts, and has remained so."

Re-Leasing Well Under Way

The combination of strong market demand and W&M's foresight in preparing for AT&T's departure has resulted in much of the space already being re-leased, and several transactions in late-stage negotiations, six months prior to the official expiration of AT&T's lease. A hedge fund relocating from Manhattan, and a commodities trader and wine importer moving from Fairfield County in Connecticut are preparing to take occupancy shortly (with W&M Construction doing the build-outs), accounting for about 25% of the available space. Additional deals are expected to close shortly.

"Our goal of re-leasing all of AT&T's former space with virtually zero downtime is within our sights," says Mr. Newman.

W&M Properties negotiated the acquisition of 500 Mamaroneck Avenue, which occupies a beautifully landscaped park-like setting, after two higher bidders for the building were unable to close.

Continued on page 4

Attorney's Letter Underscores Our Commitment to Investor Services

Most people would not regard unexpected mail from an attorney as an omen of happy news. But just such

a letter received recently by Wien & Malkin turned out to be the kind we like to share.

The correspondent, a founding partner of a large Northern New Jersey law firm, had taken the time to write us about an experience he had representing the estate of a dear old friend, whose relatively modest assets included a small interest in the Wien & Malkin-led syndication that owns the Empire State Building. Although not an estate lawyer, he was handling the affairs because of his relationship with the deceased.

"The estate was very small," he noted, "...nonetheless, I was treated by

I was treated with the same consideration as if I were dealing in millions of dollars.

Barbara Ross of your office with the same courtesy, help and consideration that I would have received if I were dealing in

millions of dollars of assets."

The attorney said he was "led graciously and intelligently through the intricacies of transferring interests," and concluded: "Thanks for the good will which your office has generated with me."

Ned H. Cohen, vice president of Wien & Malkin Securities Corp., says the attorney's experience "reflects the strong emphasis we've always placed on investor services, regardless of how much an individual has invested in our programs."

Mr. Cohen adds: "We're committed to an infrastructure that provides a full range of services and solid, courteous support to all of our investors."

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

Refinancings Fund Improvements at Wien & Malkin Properties Under New Management

Taking advantage of historically low interest rates to complete a comprehensive plan to reposition and improve some of the oldest existing Wien & Malkin-led investments, investors have given their consent to refinancings that have so far provided up to \$67.7 million for continuing physical improvements and new leasing strategies at three Manhattan properties: 501 Seventh



501 7th Avenue

Avenue, 1359 Broadway, and The International Toy Center (200 Fifth Avenue and 1107 Avenue of the Americas).

The new funds, with more coming as a result of recently received and pending additional consents for 250 West 57th Street, The Lincoln Building (60 East 42nd Street) and 112 West 34th Street, will improve the marketability and desirability of these superbly located buildings and allow them to offer first-class office space and common areas, and the very latest amenities and services, along with the time-proven

adaptability of their pre-war construction.

Anthony E. Malkin, senior director of Wien & Malkin Supervisory Services, says the new funds “will ensure that these properties will meet and exceed the market’s expectations and facilitate the achievement of our investment objectives.”

Mr. Malkin explains: “Borrowing for reinvestment in the properties allows us to upgrade them now and spread the cost over a period of years, thereby allowing larger current distributions and minimizing taxable income on earnings that are not distributed. Today’s historically low interest rates make these borrowings uniquely affordable.”

The loans put in place to date permit ownership to borrow funds in installments, thereby saving interest charges on funds not yet needed. All loans are structured as draws against lines of credit, and therefore money not required is not borrowed.



The International Toy Center

Wien & Malkin Sponsored Real Estate Hedge Fund in Final Stages of Development

Planning continues regarding Wien & Malkin’s first fund to offer the opportunity to profit from publicly held real estate and real estate related securities. If all goes according to plan, an offering for a partnership could be made as early as May.

“The purpose is to offer investors an additional means of portfolio diversification in a strategy in which the Malkin family has invested successfully for several years,” says Anthony E. Malkin, president of W&M Properties. He adds, “We believe there is a place for this type of

investing in a sophisticated investor’s overall portfolio. We will be adding to our already significant exposure on the same terms as the limited partners.”

Special Accreditation Required

Qualified Wien & Malkin investors will soon receive special accreditation questionnaires to confirm they meet the more in-depth tests required by regulators to participate in this offering.

It is envisioned that partnership units of \$250,000 each, with partial units considered at the discretion of the general partner, will be made available to those

“The purpose is to offer investors an additional means of portfolio diversification...”

wishing the opportunity to profit from both long and short positions in publicly traded real estate and real estate related securities. The fund would be based on an investment manager’s track record that has historically profited from taking advantage of pricing inefficiencies in publicly traded stocks.

Periodic Investment Adjustments

The fund, as currently contemplated, would permit investors to make additional investments and periodic withdrawals.

Wien & Malkin investors who want to assure they are on the mailing list for the investor questionnaire, should please contact Ned H. Cohen, vice president of Wien & Malkin Securities Corp., at (212) 850-2695 or ncohen@wmsecurities.com.

Note: *This is not an offering, which can be made only by private placement memorandum to qualified and accredited investors.*



In Memory of Tom Barton

The Wien & Malkin and W&M Properties family mourns the loss of Thomas D. Barton, a 10-year employee of W&M Properties, who died in an automobile accident March 24. He leaves his wife, Donna, and three young children. “Tom was a valued associate and friend to all those with whom he worked...a devoted officer with a tremendous sense of humor,” says Anthony E. Malkin.

SC III Is Launched...

Continued from page 1

The first two SC partnerships raised a total of approximately \$36 million. The invested funds in the original SC partnership are producing to Class-A limited partners a quarterly distribution at the annualized rate of 13.12% (without accounting for any return of capital), which includes a basic 10% priority return plus partial return of capital.



80 Broad Street in lower Manhattan

SC II is producing for Class-A limited partners a quarterly distribution at the annualized rate of 10.21% (without accounting for any return of capital), including a basic 9% priority return plus partial return of capital.

Mr. Perry notes that capital sources for the market niche served by SC recently have increased. "With the additional competition, yields have decreased somewhat. We have decided not to increase our risk profile, but to move our pricing and priority returns down to a level that is still substantially higher than current returns available from other, comparable risk investments".

Note: This is not an offering, which can be made only by a private placement memorandum to qualified investors.

Proactive Management...

Continued from page 2

"Consequently, Wien & Malkin investors acquired one of the finest office properties in the suburbs of New York for about 55% of replacement cost," says Mr. Malkin. "We paid \$3.5 million less than what the original high bidder had offered, and used only modest leverage to complete the acquisition. Then we committed \$12 million to a comprehensive upgrading and amenities program to make sure the property was unsurpassed in quality.

"This has been a classic Wien & Malkin investment," says Mr. Malkin, "acquired below market, improved to realize maximum value, and proactively managed for continuing success."

As the Market Improves, Penderbrook Undergoes Zoning Change for Conversion

Penderbrook Apartments has been withdrawn from the sales market to allow for a zoning change that would permit the property to be converted to a condominium.

A number of interested buyers have set their sights on converting the rental community to condo apartments, which is not possible under current zoning. Initial, favorable meetings with local authorities indicate a good prospect that the zoning change could be accomplished by September of this year.

In the meantime, underlying operating fundamentals have greatly improved at Penderbrook, with occupancy up to near 100%. Concessions have been slightly reduced, and rental rate increases have occurred for the first time in almost two years. Penderbrook investors received a special distribution in April, attributable to 2003 performance.

"Penderbrook is in the heart of a very strong housing market, and low mortgage interest rates have stimulated demand for condo residences," notes Vincent M. Sultana, vice president of W & M Properties in charge of residential property operations. "The decision to wait was made with the objective of changing the zoning and maximizing alternative outcomes as well as profiting from improved rental market conditions."

Penderbrook Apartments was acquired



Penderbrook Apartments in Fair Oaks, VA

by a Wien & Malkin partnership in 1996. The property is part of a master-planned golf course community in the suburb of Fair Oaks, some 20 miles west of Washington, D.C.

If Penderbrook is sold, the proceeds may be reinvested to take advantage of "like-kind exchange" rules in Section 1031 of the Tax Code. This will enable investors to recognize a considerable gain but defer capital gains tax so long as funds from the sale are put into new real estate investments within set time guidelines.

Please be sure we have your e-mail address so you can keep current about Wien & Malkin services and offerings.

WIEN & MALKIN

Real Estate INVESTOR
STAY IN TOUCH WITH WIEN & MALKIN SECURITIES

By Telephone:

Investor Services **212-883-WIEN (9436)**
Our menu will direct you to the appropriate sources of information.

By E-mail:

reinvestor@wmsecurities.com
Website: wienmalkin.com

By Fax:

212-983-1385

In Writing:

Wien & Malkin Securities Corp.
60 East 42nd Street, 26th Fl.
New York, NY 10165

Wien & Malkin Real Estate Investor is published four times per year by Wien & Malkin Securities Corp. The information contained herein is not deemed to be tax or legal advice. Please consult your tax and/or legal advisor for such guidance.

WIEN & MALKIN SECURITIES CORP., member National Association of Securities Dealers, Inc.