

Bond Case Briefs

Municipal Finance Law Since 1971

N.Y.'s \$1.6 Billion World Trade Debt Is Record for Unrated Deal.

A New York development agency plans to issue \$1.63 billion of bonds this month for the 3 World Trade Center tower in Manhattan, in what is set to be the municipal market's largest unrated deal.

Developer Larry Silverstein is issuing tax-exempt debt for the 80-story tower through Liberty Development Corp., a subsidiary of the state's economic-development agency. The securities won't have credit grades when they're offered, according to a 2,684-page bond document released yesterday. It would be the largest issue without a rank from the three largest rating companies in Bloomberg data going back to 1990.

The offering, managed by Goldman Sachs Group Inc. (GS), was delayed for more than a year after the Port Authority of New York & New Jersey balked at guaranteeing the debt. The bonds will price in the last week of October, Bloomberg data show.

Rating companies don't have criteria for this type of transaction, though investors have seen similar offerings, said Marvin Markus, the lead investment banker on the deal at New York-based Goldman Sachs. The building is approximately 20 percent leased, according to the bank.

"There are no published criteria for a development like this, which has construction, lease-up and occupancy components," Markus said in a telephone interview. "This is not a brand new sector for the market."

Tax-Exempt Funds

Most commercial office developments don't have access to tax-exempt financing like Liberty Bonds, so developers generally use bank loans, Markus said. Liberty Bonds for 7 World Trade Center were also issued without ratings, and then refinanced into commercial mortgage-backed securities.

Dara McQuillan, a spokesman for New York-based Silverstein Properties Inc., didn't immediately respond to a request for comment on the deal.

In June, the Port Authority approved an agreement allowing Silverstein to use \$159 million of insurance proceeds to finish the tower, which was stalled at eight floors. It is scheduled for completion in 2018.

Typical issuers of unrated debt in the \$3.7 trillion municipal market include senior-living facilities, housing developers and corporate borrowers seeking tax-free financing. As with junk-rated securities, which are more prone to default, investors demand higher yields on the bonds.

Bond documents cite 118 investor risks, including the possibility the tower won't be completed, insufficient tenant leases and the potential for terror attacks that could reduce revenue.

Mortgage Backing

The bonds for 3 World Trade will be secured by a mortgage on the building, tenant leases and rents. In addition to debt and insurance proceeds, financing will also come from \$55 million of equity from Silverstein, \$210 million from the Port Authority and contributions from the state and New York City. Advertising firm GroupM is the main tenant.

Beginning in January 2021, 3 World Trade Center LLC will determine if any of the bonds can win an investment grade, and if so, will work to obtain such a rank, according to offering documents.

The federal Liberty Bond program was created after the 2001 terror attacks to revive Lower Manhattan with \$8 billion of tax-free financing. Liberty Development previously issued \$2.3 billion of Liberty Bonds for World Trade Center redevelopment. Goldman Sachs used the program to sell about \$1.6 billion to finance a new headquarters.

Bloomberg

By Brian Chappatta and Martin Z. Braun

Oct 15, 2014 10:34 AM PT

To contact the reporters on this story: Martin Z. Braun in New York at mbraun6@bloomberg.net; Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Mark Tannenbaum, Mark Schoifet

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com