767 Fifth Avenue
New York New York
10153 0023

212 265 5900 Tel
212 554 5895 Fax
www.macklowe.com

340 madison

**340 Madison Avenue**- Macklowe Properties initially acquired the debt on this 1928 vintage, 525,000 sq ft Class C office property for a purchase price of approximately $72 million in February 1998. This debt was acquired via an adjudicated bankruptcy, and Macklowe remained in the mortgagee position for a period of approximately two years. In 2000, Macklowe foreclosed on the equity interest and took fee title to the property.

The 340 Madison Avenue property, located on the west block front of Madison Avenue between East 43rd and 44th Streets, is in a prime location in the Grand Central submarket of the Midtown Manhattan market. The previous owner had not taken advantage of this prime location. The dilapidated property was comprised of three separate structures, forming an “E” shape, creating large courtyards of unsuitable space, and highly awkward floor plates that were unsuitable for tenants of any significant size. In addition, the building was inhabited by a complex combination of approximately 150 small, predominately service tenants such as personnel firms, jewelers and travel agencies.

To initiate its ultimate repositioning plan, Macklowe undertook an extremely ambitious program to gain full vacant possession of the 340 Madison Avenue property. In order to ensure that the 150 tenants vacated their space (many of whom had significant term remaining on their leases) Macklowe utilized a combination of lease negotiations, buyouts, relocation to neighboring properties, and tenant attrition to secure possession of approximately 500,000 sq ft of office space over an 18-month period.

Once it achieved possession, Macklowe began its full renovation of the property which resulted in the creation of a brand new, modern 750,000 sq ft Class A office Building. The focal point of this dramatic redevelopment was the infill of the two courtyards formed by the property’s original configuration as three separate buildings. Macklowe merged the three separate buildings to unify the structure, and created expansive 40,000 square foot floor plates that would satisfy the demands of today’s corporate tenancy.

In addition, Macklowe acquired air rights allowing a six-story addition to the property to create an entirely new structure at the top of the building, increasing the property by approximately 62,000 sq ft above initial projected totals. The building’s rentable floor area increased by 43% (from 535,000 sq ft to approximately 750,000 sq ft), providing an excellent example of Macklowe’s ability to create value from underutilized assets and unrecognized opportunities.

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In addition to the creation of 225,000 sq ft of new rentable area, the redevelopment included the installation of an entirely new lobby and core, consisting of new electrical closets and risers, elevator systems and cabs, ADA compliant restrooms, and relocated stairwells. Two new mechanical penthouse levels were added on to the existing 22 stories to support the new core and its facilities. Finally, Macklowe installed a glass curtain wall on the buildings façade, elegantly transforming a tired brick structure to a crisp, modern glass building.

The repositioning was capitalized in 2002 with a $238 million construction loan provided by Deutsche Bank, as well as a $65 mezzanine loan and $30 equity investment from SITQ, a multibillion dollar Canadian pension fund.

The redevelopment of 340 Madison Avenue was a remarkable achievement of complex engineering and architectural redesign. Utilizing development rights, new construction and refurbishment, Macklowe successfully converted a Class C property to a modern Class A office tower.

After completing this enormously successful redevelopment in 2006, and leasing the building to a variety of highly creditworthy corporate tenants, Macklowe and its institutional partner (SITQ) pursued a strategic sale of the asset. The property was sold during November 2006 to Broadway Partners for $550 million ($733 per sq ft), which allowed the partnership to realize a combined profit of nearly $300 million. Macklowe's partner realized an internal rate of return of approximately 25% on their combined debt and equity investment.

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