The City of New York

DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES J/c
DIVISION OF REAL ESTATE SERVICES

BUREAU OF LEASING AND SPACE DESIGN
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WILLIAM J. DIAMOND, *Commissioner* | LORI FIERSTEIN, *Deputy Commissioner* | JEFFREY R. KONDRAT, *Assistant Commissioner*

March 2, 1998

TO: Dan Muller
Chief of Contracts and Real Estate
Law Department

FROM: Jeff Kondrat JRK
Assistant Commissioner

RE: **7 World Trade Center Lease**
Mayor's Office of Emergency Management

A week or so ago we discussed the possibility of making progress payments to the Landlord (Silverstein Properties) during the proposed renovations for the Tenant's share of the costs in lieu of paying construction financing costs. The construction financing costs for the City's estimated $12,000,000 portion of the work could exceed $500,000. You asked me to find out the current practice in the commercial real estate market in Manhattan for the payment of the tenant's share of the costs of renovations.

I have poled two DCAS Tenant Representatives, as well as discussing it with Silverstein. When renovations are needed it appears that the Tenant makes the renovations about 50% of the time. When landlords make the renovations, in most cases the tenants make progress payments for any renovations above the landlord's work letter when billed, which is usually when the contractor needs to pay the suppliers. In some cases, tenant's payments are made in regular intervals during the renovations (which we are contemplating doing at 7 World Trade Center). Indeed, Silverstein claims that if the costs above the landlord contribution are excessive, they demand a 20% down payment and regular payments during the construction so the tenant's share of the costs are all paid prior to completion.

In this market, it certainly appears that in this and future deals where the landlord must finance large renovations costs, that the City will be asked to make progress payments or pay for construction financing. Since our costs of funds (6% to 7%) is far less than a normal commercial landlord's cost of funds (10% to 11%), it would be far less costly to make progress payments.

I hope this addresses your concerns. Call me if you have any further questions.

cc: Lori Fierstein
Philip Damashek
Jason Cutler