Want to know what it takes to get on the fast track in New York City? The very fast track? Just ask George Klein.

How to make it big in New York real estate

By Jonathan Greenberg

BEFORE THE END OF OCTOBER, barring nuclear holocaust, the top elected officials of New York City are expected to approve the man who will tear down Times Square—the "Crossroads of America," the place the nation sees on TV every New Year's Eve—and build a new one. The only person in the running for this prize of all real estate prizes is a man named George Klein, who had better make it work, because if he doesn't, he stands a good chance of going bust.

More than $1 billion will pass through his hands, and, if all goes well, he will end up with one of the great real estate plums in New York City history: four giant office towers around a reborn Times Square, in the heart of Manhattan, with 4.1 million square feet of office space and generous incentives from the city that could make him one of the richest men in America.

Yet most New Yorkers have never heard of George Klein. Klein likes it that way. He avoids the press. For all the miles of copy that have been written in New York about the Times Square Redevelopment Project, there is a notable lack of information about the man who stands to benefit the most from it. He refused to be interviewed on the record for this article, claiming his equity in his projects is "minute." "I was simply set up in this business as a salaried executive, representing wealthy New York industrialists," he says. But he has represented otherwise to persons crucially important to his real estate interests.

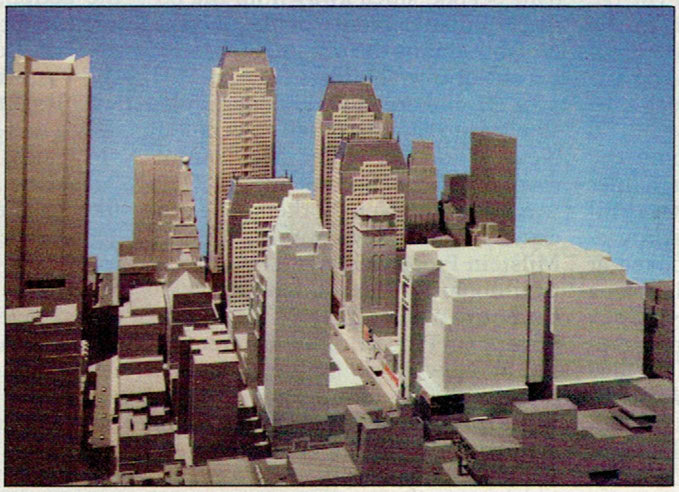
So who is George Klein, and how did he get where he is?

Real estate and politics inevitably cross paths in New York, as in most places, but in New York it's rare for one man to make waves in both. Klein, now 45, managed the trick, starting in 1975 from a particularly unpromising base. His family owned New York's once-well-known Barton's candy chain. His father, the founder, was a local philanthropist. George Klein used the role he inherited as a spokesman for Jewish and Israeli-American causes to cultivate important politicians on the local and state levels. He journeyed often to Albany back when Nelson Rockefeller was governor. Even though a conservative Republican, Klein reportedly also developed contacts with Charles Goldstein in the later Carey administration, then a highly paid consultant to the state's deeply troubled Urban Development Corp., and personal attorney to Governor Carey and Carey's secretary, Robert Morgado, who controlled Carey's office during that governor's frequent absences. Klein, inevitably nicknamed "The Candy Man," became a valued liaison with politically conservative Jews of New York.

He cultivated contacts on the national level as well. Having helped raise local money for Ronald Reagan in 1980, according to one source, "There is no question that he is one of America's most influential Jews in the Republican Party." During the mid to late 1970s Klein ingratiated himself with New York Mayor Ed Koch's administration by lobbying congressional contacts on behalf of the city when it needed federal aid.

What has all this got to do with real estate? Read on. The candy business declined and the family share was eventually sold in 1981 for around $2.5 million. His family had tried an ambitious real estate project in Brooklyn in 1975 that was minimally profitable. But by the late 1970s Klein felt ready to try the big leagues—Manhattan. A well-known real estate executive says Klein likes to compare real estate to the candy business. "He says the candy itself is not important—it's how you package, market and merchandise it," the broker explains. "You have to create an image, and that's what George Klein has done."

For his first big-time effort Klein acquired an undesirably small site at 499 Park Avenue in 1978 and began molding his image. He hired renowned architect I.M. Pei to design a slender glass office tower. Klein also hired Mel and Robert Kaufman, whose William Kaufman Organization is a familiar and respected New York developer. For $200 an hour, as a favor to a mutual friend, the pair walked Klein through the critical first half of the construction process, advising him on design, materials and finance. "He was very indecisive," Mel Kaufman recalls. "He called me for everything he did—literally everything—hiring a man, tying his shoe-



Model of planned Times Square redevelopment
First the basics, then the bidding.

laces. . . . I was on the phone with him two or three times a day."

When construction began in 1979, New York real estate was just rising out of a depression, and Klein needed rents of $30 a square foot to break even, which at that time seemed too high. By 1982, though, he had signed a lot of foreign banks, which he reportedly courted through his overseas contacts, by pitching his building's "quality" image. It was a genuine coup: Most of 499 Park Avenue rented at well over $40 a square foot, and cash flow is now reputed to exceed $4 million a year.

Since then, though, Klein's track record has been much more modest. An undistinguished, medium-size office building at 535 Madison Avenue is said to be profitable. His third effort, 33 Maiden Lane, in Manhattan's financial district, is soon to open. It's reportedly having trouble finding tenants—it's only half-rented—and there is an impending office-space glut. Some 16 million square feet are scheduled to come on stream around Wall Street over the next four years. Rentals already are softening below what Klein would need just to break even, says one real estate source.

Klein is also sitting with another building site, the huge vacant lot at 60 Wall Street. He picked it up for $50 million in 1983, and carrying it and other vacant sites is costing millions annually while he completes plans for a huge (1.7 million square feet) building on the Wall Street site. (He also acquired a number of properties in midtown, all in 1981 and 1982.)

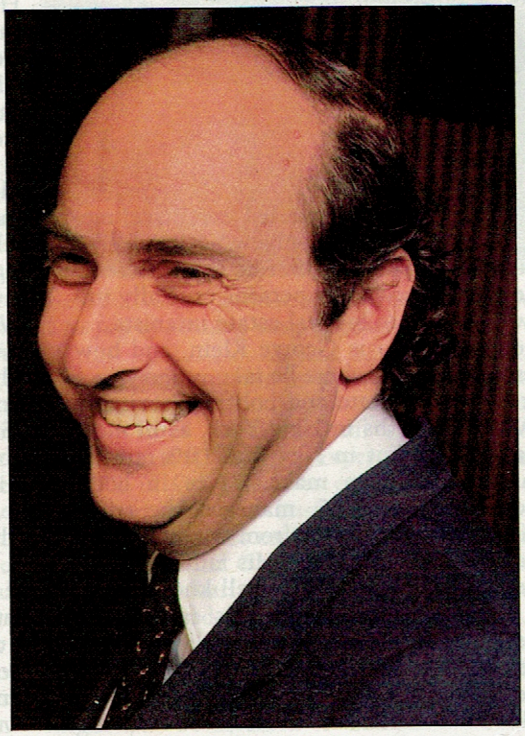
Real estate gossip has it that George Klein has spread himself thin in the evident hope of making it big. If so, and if the downtown real estate market doesn't break his way, he could be in real trouble.

But all of this has been only the preliminary to the main event: Times Square. In 1980, while Klein was still building his glass tower on Park Avenue, the city and the state looked at the Times Square area, which long ago degenerated into a drugs-and-sex half-world where the cops sometimes patrol in teams of four, and decided the only answer was to tear it all down and start fresh.

The state's Urban Development Corp. and the city's Public Development Corp. got together and determined the basics: four huge office towers totaling 4.1 million square feet; a 2.4-million-square-foot merchandise mart; a hotel complex; renovation of nine decaying theaters; and reconstruction of the sprawling Times Square subway station, a key ganglion in New York's vast underground system. They asked for bids: Only experienced developers need apply. Preference would be given to bidders willing to take on the whole 13-acre project.

In 1981 the requests went out, but very few responses came back. Most of the major players in New York real estate, including such powerful figures

Paul Fetters



George Klein of Park Tower Realty
A question of substance, not image.

as Seymour Durst, Donald Trump and Sam LeFrak, shied away from the political entanglements of the project. Notable among the missing, too, were big out-of-town builders.

In the end only four serious bidders showed up for the office towers—all New Yorkers—while one out-of-towner bid for the trade mart. Klein was one of the New Yorkers. The others: Paul and Seymour Milstein of Milstein Properties, street-smart centimillionaires who wanted to develop the entire project; Larry Silverstein of Silverstein Properties, a major renovator of New York buildings with a reputation for never having a bad word to say about anybody, who wanted only the office towers; and Rockrose Development Corp., a smaller (but still sizable) residential developer run by Tom Elghanayan and his three brothers, who owned half the parcel under one office tower site and wanted to develop it themselves rather than see it condemned.

The Milsteins and Silverstein were far more substantial and had been in real estate far longer than George Klein. But he evidently had other things going for him. "Klein has a very good way of selling things. He talks about a building's substance and architecture and how it's going to be good for New York," says a well-known New York politician. "He touches base with the do-gooders, like the Landmarks Commission and the Municipal Arts Society. He has a good rep."

Still, all things considered, you might think Klein would be at a heavy disadvantage. Not so. There ensued a peculiar series of events that almost magically smoothed away all the obstacles in George Klein's path toward developing the office towers.

In early 1982 the UDC and the PDC changed their minds on a key point. They suddenly preferred to have several developers, rather than one, build the site. That weakened the Milsteins' position. Besides, Larry Graham, who was then senior vice president and chief financial officer of the state's UDC, told FORBES the Milstein bid did not conform to UDC requirements for a parcel-by-parcel breakdown. "They're lying to you," Paul Milstein protested to FORBES. "We conformed in every shape, manner and form to the bidding process."

There is at present no way for outsiders to verify the point. The relevant documents are still unavailable. In any case, the other bidders still had hopes for a piece of the action. Graham told Silverstein and Klein that whichever one teamed up with Rockrose first would "probably" get the towers.

By Rockrose's account, Klein made only a half-hearted try to get together. "My guess is he [Klein] never would have done a deal with us—he doesn't like partners," judges Tom Elghanayan. Undeterred, early in the week of Mar. 15, Elghanayan got together with Silverstein, Paul Milstein and their lawyers at a breakfast meeting at Manhattan's Hotel Carlyle and began negotiating a consortium to compete against the seemingly confident Klein in a further bidding round.

Why had Klein become such a strong contender when the Milsteins couldn't? A major developer who avoided this project points out that such round-by-round bidding is tailormade for political games. "It wasn't a sealed bid with the public in attendance," he says. "It was a 'convenient' bidding process."

Paul Travis, senior vice president at New York City's PDC, told FORBES Klein was a strong contender because he was "very impressed" by Klein's reputation. "He had a lot of experience at that time," says Travis—this was about one year after Klein had put up his first building. "He has a great eye for design and we had a lot of confidence in him."

The UDC and PDC then decided to make life even more interesting for the contestants. On Mar. 17 they abruptly notified Klein and Silverstein by telephone of a deadline for a final bid, Monday, Mar. 22, 5 p.m. Why all the rush? "Once you get momentum in a bidding process," claims Graham, "you have to move quickly and create artificial deadlines so that the project doesn't drag along or fall apart."

The bidding process promptly fell apart. The consortium of Silverstein, Milstein and Elghanayan, headed by Silverstein, was hastily confirmed with a handshake on Thursday, Mar. 18, in Silverstein's office. (Silverstein was about to leave for a two-week vacation on his yacht. Despite the new deadline, he shoved off the next day.) The consortium tried to coax Klein into joining and failed. Instead, a bid from Klein, in proper order, came in just under the deadline, about 4 p.m. Monday, Mar. 22. By all accounts save one, as we shall see, a consortium bid never materialized.

Says the UDC's Graham of the Monday deadline, "Silverstein complained that he couldn't give us the final numbers. I said fine, just tell us the group offer wouldn't be substantially different than the individual bids." Graham acknowledges he did receive a letter as a response from Silverstein, but says the letter did not guarantee what he wanted.

That letter from Silverstein to the UDC and the PDC, was dated Mar. 19. A similar letter, also dated Mar. 19, apparently was sent by Silverstein to at least one consortium member, and a copy has been obtained by FORBES. There is one small but crucial difference in the two versions: Where the letter seen by a FORBES reporter in the UDC's files said the new bid "will be acceptable to the city and state," the version sent to the consortium member reads "[the proposal] will be more favorable to the city and the UDC than any others." Graham says he has no knowledge of this second version. The UDC now says it can find no version at all in its files.

Silverstein, already hesitant to discuss the bidding, stopped returning FORBES' phone calls when asked to explain the difference between the two letters. In any case, it's plain that the UDC saw no reason for much delay. "We spent a day or two agonizing over what was a well-prepared, good bid from Klein and a nonbid from Silverstein," Graham told FORBES in summing up this final round of bidding. "We decided to go with Klein."

(Paul Travis of the PDC remembers it all quite differently. He insists the consortium did submit a collective, economic bid before the deadline. "It was as fair a process as I've ever seen," he told FORBES. "The city's been very consistent about this. We received two economic bids. Klein clearly had the best bid, and it's that simple." But Paul Travis is alone among the principals in his clear recollection of a consortium bid. That includes members of the consortium.)

The consortium still did not give up. After the Mar. 22 deadline, according to sources, the consortium again offered, in writing, in a letter to both the UDC and the PDC, to beat Klein's bid. The UDC told FORBES that no such letter is in its files.

Does all this seem mysterious? Not to Paul Milstein. "The consortium was formed at the behest of the UDC to negotiate a price," he says. "We were told the project wouldn't be given out for months. Suddenly they shifted gears and said they needed a proposal now. That's why there's no [specific, formal] consortium proposal—we never had time to crystallize one. So we said, orally and in writing, that we'd better any price they had. But suddenly, out of nowhere, Klein was designated." Milstein's opinion: "It was obviously a fix."

After all that, you would think that George Klein would at last be in the clear on Times Square. No, big real estate deals in New York City are rarely simple. The developers picked for the trade mart got into separate financial trouble and were removed from the project in November 1982. Suddenly the trade mart was up for grabs again. And in the beginning of 1983 an important change had occurred in Albany—Mario Cuomo succeeded Hugh Carey as governor. Bad news for Klein. In the much-needed housecleaning at UDC that Cuomo began, most of the people who occupied the upper echelons when Klein was designated were swept out.

Mark Greenberg/Visions

Street scene, 42nd Street near Times Square
Nearly everyone will have something for his trouble.

Now, early in 1983, the Milsteins formed a new consortium of their own and made an attempt for the trade mart.

Why should this bother Klein? Simple. Klein evidently suspected Milstein would somehow contrive to turn his mart structure into low-cost office space that would undercut Klein's four office towers. That could queer the project for Klein. What to do?

By late June, Klein had his move ready. First he called Paul Milstein and demanded a half-interest in the mart project. Milstein did not warm to that idea. Milstein says that Klein, not surprised, then countered, "If you don't give me half the merchandise mart, I'll make sure you don't get the project."

Behind the threat was a clause in Klein's Times Square agreements giving him the option to take on the mart if the original developer defaulted. Now he exercised it, teaming up with Dallas developer Trammell Crow to handle the new deal.

But Cuomo was in and Carey was out, and UDC's Larry Graham, who had been so helpful before, wanted Milstein for the mart, not Klein—option or no option.

"I felt the public would be better served and there would be greater strength in the project if one guy didn't control the whole project," Graham now says.

The city, nevertheless, insisted on the Klein/Crow team. The committee deciding the mart's fate was split—three state votes for Milstein; two city votes for Klein. Ed Koch then did something that raised eyebrows across the state—he pulled the city off the Times Square project altogether. A classic political standoff, New York style.

The city's three major newspapers urged the mayor to resolve his differences with the governor. On Sunday, Aug. 14, 1983, Koch held only his second private meeting with Cuomo since the governor had taken office. Cuomo said he did not want Klein controlling both the mart and the office buildings. The mayor agreed to a compromise that took Klein off the mart. A new partnership was cobbled together, composed of Tishman Speyer Properties, Trammell Crow, and the Equitable Life Assurance Society as the money partner. At the state's insistence, Milstein would be thrown an explicitly passive minority interest.

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So the Times Square Redevelopment Corp., as it is now called, which had been such a stickler about tough deadlines and the precise technical form of bids the year before, on virtually no notice took a builder for the mart who had never bid on any part of the project at all. But Klein couldn't have cared less. Thanks to the mayor's dramatic power play, he got what he really wanted—keeping control of the mart away from Milstein.

As things stand, nearly everybody has something. Klein has a good shot at centimillionaire status when the city eventually gets its redevelopment—if he doesn't go broke first. Milstein should have a nice investment in the trade mart. Even Larry Silverstein has a consolation prize. He owns property around the redevelopment site that will greatly increase in value—and he is a leading contender for the hotel complex that will go up down the street from Klein's office buildings.

That is who George Klein is, and how things are done in big-time New York City real estate. ■