

December 18, 2007

Developer Related Companies gets \$1.4 billion infusion

By MATTHEW KARNITSCHNIG and ALEX FRANGOS
THE WALL STREET JOURNAL ASIA

December 18, 2007

Goldman Sachs Group Inc., the investment arm of Abu Dhabi and others have agreed to inject a combined \$1.4 billion into Related Cos., the closely held real-estate developer behind New York's Time Warner Center, executives at Related Cos. said.

The deal, announced yesterday, includes about \$400 million in equity from Goldman and MSD Capital, Michael Dell's investment firm. The equity investment gives Goldman and MSD a 7.5% stake in Related, valuing the New York real-estate firm at more than \$5 billion.

In addition, Abu Dhabi's Mubadala Development Co. and Olayan Group, a Saudi Arabian company, have invested about \$1 billion total in Related in the form of subordinated long-term debt, according to people familiar with the matter.

Exact stakes and interest for each investor weren't available. The new investors have also agreed to put money into future Related development projects.

The investments highlight the growing appetite of Middle East investors for high-profile investments in the West. Yet that growing appetite comes with its own political sensitivities. Last year, a Dubai port company sold its interests in some U.S. ports following an outcry by U.S. lawmakers. As with a spate of recent similar deals, the Middle Eastern investors in Related won't have any involvement in the company's governance.

The investments also show how the credit crisis is coursing its way through the real-estate world. Related Chief Executive Stephen M. Ross said his company began pursuing the deal before the crisis in mortgage markets emerged over the summer. The market "was so good we knew it wouldn't last," he said. "Deals are going to require a lot more equity going forward."

Mr. Ross said the capital injection would allow Related to continue to diversify. Last year, the company acquired the Equinox chain of fitness centers, and recently it bought a majority interest in retailer Virgin Megastores North America.

Mr. Ross founded Related in the early 1970s to build and finance government-subsidized affordable housing, which is still a part of its business. Related eventually moved into higher-end office and retail developments as well. Mr. Ross narrowly escaped insolvency in the early 1990s real-estate crash and required a major injection of capital from investors -- including his billionaire uncle, the late industrialist Max Fisher.

Related emerged in the 1990s as a major developer of luxury residential and mixed-use projects, including Time Warner Center. Related has several large projects around the U.S., including a \$3 billion redevelopment of several blocks in downtown Los Angeles. Related is co-developers with **Vornado Realty Trust** of the area around New York City's Pennsylvania Station. That project could eventually cost about \$14 billion and involve the construction of two train terminals, a new Madison Square Garden arena and several skyscrapers.

Related is also among several bidders vying to build dozens of buildings over the Hudson Yards, a 26-acre rail facility on Manhattan's West Side. It has teamed with **News Corp.**, owner of The Wall Street Journal, to be the project's anchor tenant. Goldman Sachs is a financial backer of the Hudson Yards bid. Government officials are expected to pick a developer in February.