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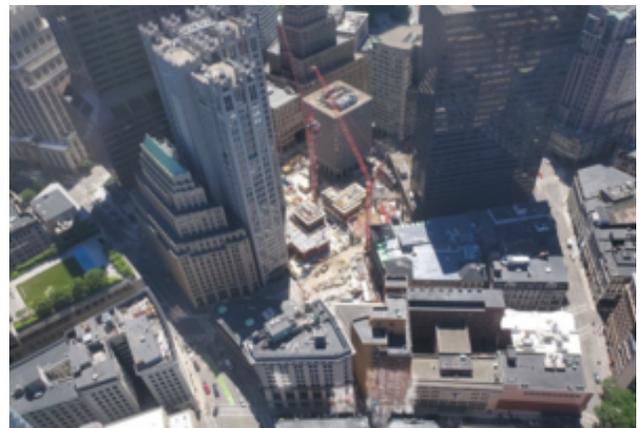
# Winthrop Center could have been another Filene's crater – until a Kuwait-backed fund saved it

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Traditional sources of bank financing had evaporated. A term sheet promising an \$825 million loan had been cancelled. Chris Jeffries feared that Winthrop Center — a \$1.3 billion project poised to bring hundreds of residential units and hundreds of thousands of square feet of office space to Downtown Crossing — could become another crater in the middle of downtown Boston.

Jeffries' Millennium Partners had been the white knight riding into that same neighborhood in 2013 to fill the cavernous pit at the former Filene's Department Store. The yawning void had been vacant for five years after Vornado Realty Trust pulled financing for a skyscraper there. A site the Business Journal had once described as "the Boston poster child for stalled development, its old carcass left half-



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An aerial shot of the Winthrop Center project site in summer 2020.

demolished,” is today the home of the gleaming Millennium Tower.

But just a few months ago, an area just few blocks over was at risk of becoming another high-profile eyesore. Work crews had spent the past three years demolishing a dilapidated city-owned parking garage to make way for Winthrop Center. But in February, as the deadly virus spread across the world, Jeffries — the founder of Millennium Partners — got a phone call from longtime banking partner HSBC Holdings plc, which was set to lead the \$825 million loan for the project along with German bank Helaba. The banks had attempted to line up syndicate deals with other institutions to buy smaller pieces of debt.

“They called and said, ‘Chris, you won’t believe this, but the syndication market is nonexistent. Every single bank we’ve lined up to buy a \$25 million piece, a \$50 million piece, has said they’re out of the market. We can’t put this on our balance sheet alone,’” Jeffries recalled.

HSBC and Helaba opted to wait 90 days to see if the stress on global financial markets from the coronavirus pandemic would pass. Jeffries and Millennium spent the time calling other banks. “The entire system had frozen up. At the end of the 90 days, it became very clear that there is no market.” Jeffries said. “And, by the way, there is none today. There is no syndication market.”

### **'Don't panic'**

Jeffries was left in a tough spot. Without a large anchor office tenant signed to lease a substantial portion of the office space at Winthrop Center, and no guarantee there would be an appetite for condominiums when the tower was complete, he needed to find unconventional financing sources. He didn’t waste time blaming banks, Jeffries said.

He wanted to find out how to get out of the hole, and quickly, so Winthrop Center wouldn't become another Filene's crater.

“When these circumstances happen to you in life, you quickly have to pivot

and realize the world has changed on you. There's no fingers to be pointed," Jeffries said in an interview with the Business Journal. "You breathe deep, and tell yourself: Don't panic. This is a problem we have to tell ourselves we have another solution to."

Jeffries began researching opportunities around the globe, looking for a partner who could support a large-scale project like Winthrop Center. But in the end, he relied on a relationship from years past: Ed Siskind, who had worked with Millennium Partners on the financing of the Ritz-Carlton Hotel and Towers and the 10 St. James office building in Boston while with Goldman Sachs Whitehall Street Funds. Siskind had founded Cale Street Investments in London, a real estate investment and finance firm backed by a Kuwaiti sovereign wealth fund. Cale Street had the capital, and a mandate from its Kuwaiti backers to only do first mortgages.

"I warn you, they're expensive," Jeffries recalled Siskind telling him. Millennium Partners would have to put up \$525 million of its own capital — or 40% of the overall Winthrop Center project — while Cale Street would back the remaining 60%, or \$775 million. Cale Street also required a switch from condos to apartments.

"They said, 'Listen, we're not making this investment and then finding out the condominium market doesn't exist. We need this. If you put up the \$525 million, we'll be confident that we will be able to rent apartments,'" Jeffries said. "We all still hope — us, the city, and Cale Street — still hope that there's a condominium market. But if there isn't, we have a built-in structure, with everything that remains intact."

### **An all-in proposition**

Requiring more than half a billion dollars of equity is a substantial investment — more than a typical developers' input on a large-scale mixed-use project. But Millennium Partners had already poured around \$300 million of its own equity into Winthrop Center. The land was purchased, shadow studies completed, architecture and engineering drawings done and almost all underground work complete. Cale Street had "100%"

confidence that Millennium Partners would be good for the remaining balance of equity — around \$225 million — Jeffries said.

“They wouldn’t have made this loan if I didn’t show them the capacity that we had to be able to do it,” he said. “It goes more with showing them how much equity is in the business and how much cash is in the bank.”

But still, it was an “all-in proposition” for the entire Millennium Partners team. Jeffries needed full support from the company to put up the additional equity for Winthrop Center. The building’s health and wellness attributes were in its favor, designed pre-pandemic in a way that will seemingly meet what many tenants will demand when they return to the workplace post-pandemic, such as fresh air flowing through each office floor, access to natural light, 12-foot ceilings and a reduced energy consumption.

The tower is positioned to become the world’s largest Passive House office building when complete and will include environmental and sustainability features designed by MIT’s Environmental Solutions Initiative.

But the construction on one of Boston's largest office and residential projects in recent memory is still happening at a time when just a handful of employees have returned to the downtown workplace and when many residential landlords are scrambling to find tenants. CBRE’s [Lauren Lipscomb](#) said on the brokerage’s recent Boston market overview that just 6% of offices in downtown Boston were occupied as of mid-October, up from 1.5% in June, and the amount of space on the sublease market is reaching historically high levels.

Accepting Cale Street’s offer took some convincing — much of which was Jeffries convincing himself. “The question is, do you believe enough in this building, and do you believe enough in this city to invest \$525 million at a time when everyone is telling you they’re going out of cities, not coming into cities?” he said.

## **Only in Boston**

Whether urban cores can survive the Covid-19 pandemic was clearly a city-specific question, Jeffries said. Boston's pre-pandemic dynamism and economic diversity, as well as its strong property-tax base, gave the entire Millennium Partners team confidence. And many of the region's fundamental strengths — renowned institutions of higher education and medicine, major sports teams, and the world's largest biotechnology hub — will likely remain strong, even after being battered by the pandemic.

Combining Boston's fundamental strengths with the environmental and sustainability features of Winthrop Center — as well as design elements including providing home office space in apartments for residents to work comfortably from home, as well as a Millennium club where residents can access additional work space — sealed the deal.

"Covid has made this building more valuable, not less," Jeffries said. "This building is designed for exactly what everybody's going through, but that's not why we designed it that way. It just accelerated it. Those were conversations I had with myself. And of course, to be honest, I was already halfway in."

Millennium and Cale Street have since closed on a \$775 million loan, which allows construction to move forward on Winthrop Center. The team anticipates the tower to be ready for occupancy by the beginning of 2023. There's no office lease signed yet.

"America's not going to become a suburban country. I mean, it's just not," Jeffries said. "We'll pick and choose which cities are sustainable and livable, and which have more intractable problems. And Boston is clearly a winner on that scale."

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