Cover: Photo by George Cserna of the Seagram building, New York (story, page 66)

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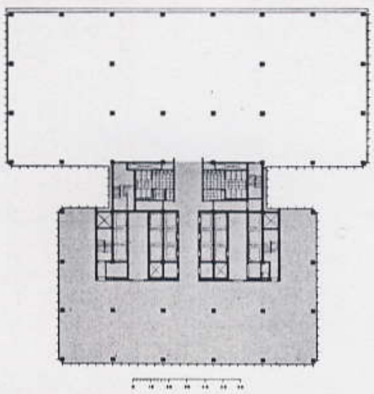
Seagram's bet on elegance

Most office towers today are built primarily for profit. This one was built primarily for prestige. Yet prestige may prove to have a considerable long-term cash value.

Can a custom-built, luxury skyscraper like the Seagram building—designed by a master architect and under a luxury budget—be made to pay its way in today's commercial real estate market? Samuel Bronfman, president of Distillers Corporation-Seagrams Limited, who has some $43 million of his company's funds invested in an elegant new Park Avenue *palazzo*, is obviously keeping his fingers crossed. But the preliminary figures seem to indicate that the Seagram building, from 52nd to 53rd Streets, may not only pay its way, but also earn a modest profit for the company.

This is important, for if the Seagram building pays its way, every architect and builder in the U. S. will share in the profits. For they will, then, be able to cite Seagram to other clients who may be inspired to erect more structures of outstanding design by outstanding architects—if such ventures do not have to be recorded in red ink.

Seagram, to be sure, is a very special kind of real estate project: it was not built primarily as an investment intended to produce a fast money return; it was built to produce a long-term return in public good will, institutional advertising, and — only incidentally — in cash. This distinction is important. For if Seagram were judged as a fast-return real estate investment, it would obviously have to be judged a failure—just as most postwar run-of-the-mill New York office ziggurats must be judged a failure as generators of public good will, institutional advertising, or for that matter, long-term cash value.



Prestige tower floors (shaded area above) are relatively small; from the 11th to the 38th story each floor has about 12,000 square feet of rentable area as compared to the 28,300 square feet on the second to fourth floors, which include the block-wide wing at the rear of the tower (plan above). The intermediate fifth to tenth floors are reduced to 18,600 square feet each by a setback.

The public be pleased

From the beginning President Bronfman wanted "something special" in the way of a new corporate headquarters and he was willing to pay a premium to get it. So, although the 60,000 square foot Park Avenue site for which Seagram paid $5 million would have accommodated a much larger building of perhaps 1 million square feet, Bronfman decided that a building of "about 500,000 square feet" of rentable floor area would probably be most suitable for the company's purposes.

As for quality, Bronfman made it clear to all hands that he wanted a structure that would offer prestige tenants space in a new, unsurpassed luxury building in units as small as 500 to 700 square feet if desired. (Most new commercial buildings in New York spurn small-space tenants in favor of full-floor or multifloor renters.) For these prestige accommodations, of course, Seagram would charge premium rents. The big question was whether the company would be able to get premium rents.

As it turns out, the building, which was officially opened at the end of May, is already 90 per cent rented, and the remaining 10 per cent is being rented with comparative ease—a tribute to the subtle, attractive elegance of the completed structure itself. Moreover, space is being rented at $7 to $8.30 per square foot in the 28 tower floors, as compared with the going rate of about $5 to $5.25 a foot for ordinary new buildings. By last month, the building had about 77 tenants, and was expected to be filled with a total of perhaps 100 tenants (averaging about 3,800 square feet of space each) by early fall. All tenants, happily, are on leases of at least ten years.

Here is how the economics of the Seagram building shape up. The final cost of the building will be in the neighborhood of $43 million: $38 million for the structure (including all fees, tenant partitions, and finished interiors of Seagram floors) and $5 million for the site. Thus the building alone, with 854,000 gross square feet of floor area, cost $45 per square foot to build (about $50 per foot including the land). By comparison the cost of ordinary New York office buildings today is only about $25 to $30 per square foot, including tenant partitions and alterations, but exclusive of land.

The company financed the construction of the building entirely on its own, and has no mortgage. It initially used working capital and, last April, marketed a $40 million, 4¼ per cent issue of 25-year debenture bonds to replenish its working capital. It now appears that rents (Seagram charges itself $6.36 per square foot for the 159,000 square feet it occupies on the eight lower floors) will more than pay for all the operating expenses, real estate taxes, and interest. In the first year these will total an estimated $3,456,000 as against a rent roll of $3,843,000. relativo profitto

Thus, in the simplest terms, the building may net about $400,000 the first year, or 13 per cent on the company's initial $3 million cash investment (the difference between the $43 million cost of the building and the $40 million borrowed), before federal taxes or amortization. This net would rise each year, as interest charges decline, to perhaps $750,000 in the eighth year, for example. But depreciation completely changes this simple picture. For tax-deductible depreciation that will be allowed can be applied against other company income for a tax saving of 52 per cent. Thus on a 50-year straight-line depreciation basis, the $38 million building would preserve $395,000 of corporate profit annually.

What price quality?

As against this far-from-gloomy prospect, what would have happened if Seagram had covered its entire plot with a more conventional and less expensive building of the maximum allowable floor area? Obviously, a larger, ordinary building would have shown a much greater net cash yield in its early years. But the premium building should command premium rents long after the bloom would have faded from an inferior building. Indeed, some real estate experts think Seagram's decision to build in moderation and good taste may prove to have been the most profitable business decision over the long pull.

If Seagram had wanted to exploit its site to the fullest it could probably have erected an ordinary office building with about 1 million square feet of rentable area for just about the same cost (i.e., $38 million) as its luxury building, which is only about two-thirds that size. In that case, in contrast to the estimated 4.8 per cent return—before federal taxes or depreciation—that the company may earn on a "free-and-clear" basis (the difference between total income and total operating expenses and real estate taxes) from the present Seagram building, the company might have achieved a speculative builder's yield of about 12 per cent to 20 per cent. But in that case it would have "earned" very little prestige or good will. Of course, even a 4.8 per cent free-and-clear return (the $2,087,000 spread between income of $3,843,000 and operating expenses and real estate taxes of $1,756,000 expressed as a percentage of the $43 million cost of the building) would make the project a poor conventional real estate "investment" at $43 million. For, if that yield was capitalized at 7 per cent, a rate often used in valuing first-class office buildings in prime locations, the property might only command a price of about $30 million if offered for sale to professional realty investors.

It could also be argued that the 27,000 square feet of plaza land cost Seagram an unnecessary $2,250,000. But that would again ignore the intangible value this area adds to the entire project. It would also ignore the very tangible value derived from the space beneath the plaza which is used for a parking garage, storage area, and building maintenance shops.

But even if the Seagram building were not to "pay off" in dollar and cents at all, even if all the profit had to be taken in good will, even then Mr. Bronfman's investment would be a sound one. END

THE LADY AND THE ARCHITECTS

UP

Johnson and Mies, Client Lambert

The Seagram building was the work of an unusual team headed by three people: Architects Mies van der Rohe and Philip Johnson, and 31-year old Phyllis Bronfman Lambert, daughter of Seagram President Samuel Bronfman, and long a passionate *aficionada* of modern architecture. After seeing some preliminary, less-than-inspiring proposals for Seagram's new headquarters in 1954, Mrs. Lambert told her father that he was on the wrong track, that he ought to try to build the finest skyscraper that modern architecture could produce, and that she would help him do just that. There followed a two-and-one half-month search for an architect. Mrs. Lambert got Philip Johonson, then director of architecture at New York's Museum of Modern Art, to draw up a list of the top dozen men in U.S. architecture, talked to them and saw their work. Mrs. Lambert's final choice: Chicago's Mies van der Rohe, with Johnson (who had a New York office and was registered in the state) as Mies's associate. Seagram President Bronfman approved wholeheartedly, appointed his daughter director of planning to represent the clients in Mies's and Johnson's office. In her position as client, Mrs. Lambert took an active part in almost every major—and many minor—design decisions, helped select materials, equipment, furnishings and, most importantly, the paintings, sculpture, and tapestries that distinguish the interiors of the building. Her ultimate triumph will be the art commissioned for a luxurious ground-floor restaurant that will be opened to the public next year.