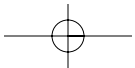
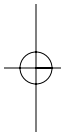
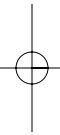




Sky's the Limit

PART ONE





The Deal and the Deception

How many millions might a man be willing to spend to raise his ego a quarter mile high? How much to lay claim to the heart and soul of New York City? What would a respectable businessman pay? Not a shadowy character looking for legitimacy or attention. On August 21, 1991, almost six years before Hideki Yokoi gazed in triumph off the top of the Empire State Building, Kurt A. Reich turned the questions over in his head. For the 15 years he had been buying and selling commercial property for Prudential Insurance Company of America, Reich had been trying to fathom what drives men to buy trophy real estate, to pay beyond reason for the opportunity to affix their names to spectacular buildings. On this morning, it was not a matter of idle curiosity. As the real estate gold rush of the 1980s was fading into bust, and financial pressure on the insurance company mounted, Prudential had decided to sell the Empire State Building, and Reich was waiting to meet the mysterious couple who had bid more than anyone else.

The ego buyers had indeed been out in force, because the world's most famous skyscraper, curiously enough, was likely to sell for a price that—in the lofty world of Manhattan real estate—was little more than a song. Thirty years earlier, Prudential had gutted the building's profit potential. It had leased the entire building—for 114 years, an eternity in real estate—to an investment company controlled by a pair of Manhattan real estate titans. Each year, the two moguls paid Prudential a paltry \$1.9 million in rent for the 2.5-million-square-foot building, giving them both a motive to cling to their lease with the tenacity of Park Avenue millionaires in rent-controlled apartments. Whoever bought the Empire State Building now would face the prospect of wrangling with two of Manhattan's most difficult real estate magnates: Peter Malkin, an iron-willed Harvard-educated lawyer who was exacting to the point of annoyance, and Leona Helmsley, a notoriously volatile woman who was sowing terror through the billion-dollar real estate empire assembled by her ailing husband, Harry. What Prudential was selling, in truth, was little more than sizzle: the right to boast, "I own the Empire State Building."

Reich and a young investment banker from Salomon Brothers, Gregory White, had worked the numbers time and again. No sensible investor, they reasoned, would park money until the year 2076 for anything less than a 7.5 percent return. Unencumbered by the lease, the building might fetch \$600 million to \$800 million, they figured. But no matter which way they looked at it, the Empire State Building, saddled with that long-term lease, was worth only about \$25 million to a rational buyer. How much more could Prudential squeeze from the ego factor? White boldly conjectured another \$15 million to \$25 million. But who was to say? Putting an asking price on the skyscraper, White advised, would merely stifle the imaginations of potential buyers. If someone wanted to overbid, he told Reich, it wasn't Prudential's business to worry about why.

One Salomon banker had even floated a proposal to organize a New York State lottery with the Empire State Building as grand prize. Who wouldn't put down \$5 for a crack at owning the world's most famous skyscraper? The numbers could be astounding, he had argued. But Prudential had scotched the proposal as far too risky.

Just before bringing the 102-story landmark to market, Reich gathered his bankers to ponder the unknowable. Each of them anted up \$10, mulled over what the skyscraper would fetch, and secretly jotted a number on a slip of paper. A few guessed in the high twenty millions. Others guessed the low thirties. Reich wrote down \$39 million. Head banker White, who had been talking up the ego-play strategy, figured he ought to put his money where his mouth was. White wrote \$39.5 million, and stuffed his guess into the envelope.

Reich wasn't sure what to expect as he waited for the Japanese woman and French-American man who had bid \$41 million. The names Nakahara and Renoir had meant nothing to him. He punched the numbers into his calculator. The lease payments from Malkin and Helmsley would give the couple a scant 4.6 percent annual return on the purchase price. Reich didn't consider it his job to stop people from making foolish deals.

Reich could find no one who knew anything about Renoir and Nakahara. They were an enigma. Ordinarily, when Prudential was unloading, say, strip malls or suburban office buildings, it cared about little more than whether a potential buyer could come up with untainted cash. But the Empire State Building was a different matter. Prudential feared a firestorm of negative publicity if it sold the landmark to the wrong buyer. Under the circumstances, the seemingly ludicrous economics of the Renoirs' bid bore careful scrutiny, Reich decided. He wanted to put a question directly to the bidder. Why?

When Renoir and his wife arrived at Reich's spacious

office on the twentieth floor of New York's Rockefeller Center, Reich rose to his feet and introduced himself. Renoir—a ramrod-erect 44-year-old with close-cropped hair, a boxer's face, and a penetrating gaze—handed Reich a card identifying himself as president of Lehman Brothers' asset management arm in Japan. Renoir told Reich he had come as a representative of his wife's family. Kiiko, a short, attractive woman whose dark hair curled around her face like a helmet, smiled demurely, then sank into a chair. "We understand you have an interest in the Empire State Building," Reich began. "Obviously, it's a remarkable asset. Why are you interested?"

Kiiko handed Reich a portfolio of pictures. Reich flipped through them, incredulous. He saw European castles, lots of them. "My father collects them," said Kiiko. Her billionaire father, who wished to remain anonymous, she said, had assembled a portfolio that included nine French châteaux, four British castles, a Spanish palace, and the second-largest private residence in America, a sprawling behemoth on Long Island. "The Empire State Building is just one of the buildings he wants," she said matter-of-factly. Renoir picked up the story. Kiiko's aging father, he told Reich, had made a fortune by manufacturing uniforms for the Japanese Imperial Army during World War II and by producing soft goods for American occupying forces after Japan's defeat. Later, he branched into real estate, snapping up treasures from Japan's royal family. Finally, he had been active in the stock market, taking runs at undervalued companies, not unlike the noted American raiders T. Boone Pickens and Carl Icahn. Reich, ever alert to potential controversy, interrupted. Renoir reassured him that his father-in-law hadn't been tainted by his takeover activities. The Empire State Building, Renoir concluded, would be another one of his collectibles.

To Reich, the bizarre story seemed a plausible enough statement of motive. After all, Prudential was looking for someone with a world-class ego. And from what little he could

tell from the snapshots, this bidder appreciated grandeur. But Reich's gut was telling him something else. There was something unsettling about this couple. Renoir seemed brash, a little too slick, even shifty. Perhaps, thought Reich, he was just reacting to Renoir's French accent. Or to Kiiko's strange disengagement. As he bid the couple good-bye, Reich couldn't shake the feeling that something wasn't being said. Was it that Renoir had trouble looking him in the eye? We'll need to find out more about this family patriarch, Mr. Nakahara, Reich decided after the meeting.

Soon Peter Malkin received a telephone call from an investment banker at Salomon. At 57 years old, the gangly six-foot three-inch Malkin had long ago emerged from the shadow of his late father-in-law, one of Manhattan's most respected property kingpins. By dint of inheritance and shrewd investments, Malkin controlled some 20 million square feet of commercial property, from Manhattan office buildings and retail properties to suburban apartment buildings and shopping centers. In an industry known for the rough edges of its dominant figures, Malkin was, at least on the surface, a notable exception. Erudite, civic-minded, and impeccably mannered, Malkin seemed less the product of his native Brooklyn than of the exclusive Greenwich, Connecticut, neighborhood where he had settled. Malkin took old-fashioned shoeshines at his desk and, when discussing his colleagues, seldom failed to attach a "Mr." or "Mrs." to their names. But some people in Malkin's business and social circles also associated him with a steely determination about matters large and small, a willingness, for example, to personally reproach people who violate the restrictions on leaf-blowing machines in his neighborhood of million-dollar homes. In short, he was not a man to be easily bullied.

As holders of the Empire State Building's lease, Malkin and

Leona Helmsley were themselves the most logical buyers of the building. Their lease gave them almost absolute control of the building for 85 more years. Buying the bricks and mortar would consolidate their position, remove the potential headache of a troublesome new owner, make it easier for them to sell their valuable position outright. But in earlier meetings with Salomon's White, Malkin had been cagey. "I can be the best buyer," he had assured White. Nonetheless, he had bid only \$32 million. White had warned him not to assume no one would bid higher. Malkin simply hadn't believed him.

Malkin was astonished to learn from a Salomon banker that a \$41 million bid had come in from Asia. The banker assured him the bid was real.

"Well, I can't match that," Malkin replied. He hung up his phone, crestfallen. He had figured he could afford to bid more for the building than was economically reasonable, to protect the lease. But why, he wondered, would anyone else?

With Malkin apparently unwilling to engage in a bidding war, Prudential's Reich turned his attention back to the Renoirs. Prudential had a rule against selling buildings to anonymous buyers. Imagine the embarrassment that would come from selling the Empire State Building to, say, a blind trust backed by a Columbia cocaine cartel. Prudential would need to know exactly where any money for the Empire State Building was coming from, and Reich felt he hadn't gotten an adequate explanation from the Renoirs. He told White to pump his Salomon colleague in Tokyo for more information on Mr. Nakahara, the family patriarch. White's colleague, who had a commission riding on the deal, assured him the family company was solid.

Something else also nagged at Reich: the potential fallout from selling such a cherished landmark to a Japanese buyer of any sort. Recent years had seen a tsunami of Japanese purchases of American trophy properties, many at prices that left American real estate veterans bewildered. But the Japanese

purchases of Rockefeller Center and the Pebble Beach golf course had sparked a xenophobic backlash, as commentators fretted that an all-powerful Japan was consuming America's corporate lunch and then moving on to its cultural treasures. White played down the concern. The building couldn't be loaded onto a boat and moved back to Japan, he told Reich. Reich met with his bosses at Prudential to discuss the prospects of negative press. If the high bid came from Japan, the group decided, so be it.

On August 23, 1991, Prudential signed a contract to sell the Empire State Building to an investment company set up by Renoir and Nakahara, pending approval of the buyer by Prudential's board of directors. Both Reich and White remained uneasy. Getting further information about Nakahara from Salomon's Tokyo office was like pulling teeth, White confided to Reich. White didn't want some enterprising reporter to uncover skeletons after the deal was closed. Both men pressed for more information from Japan. Finally, White began to get to the truth about Kiiko's father, the mystery billionaire. His name wasn't Nakahara, after all. It was Hideki Yokoi. When White's office punched the name into a computerized news search, it surfaced like a stink bomb. White was livid. He phoned Reich immediately. "Now we know why we're not getting a straight story," he told Reich. He rushed uptown to Reich's office.

"The guy you're selling to is probably financially credible," he informed Reich. "But you might want to think twice about doing business with him." White showed Reich newspaper accounts of an inferno that had gutted a massive Tokyo hotel in 1982, killing 33 guests. Yokoi owned the hotel. He'd been arrested, convicted of gross negligence, and was facing a jail term. Hideki Yokoi, the articles suggested, was one of Japan's most hated businessmen. And that's not all, White told Reich. Yokoi had long been said to consort with Japan's notorious criminal underworld, the *yakuza*, White said. He cautioned

Reich that he had no idea whether the rumors were valid. But Reich had heard enough. This was hardly the caliber of buyer he was seeking. He told White he would urge his superiors to kill the deal. Shortly after White returned to his office, Reich telephoned. The deal was off.

Reich phoned Renoir's lawyer with the news, offering no explanation. "If you and your client would like to discuss the reasons, we can meet in my office to do so," Reich told the lawyer. To Reich's astonishment, he never again heard from Jean-Paul Renoir or his wife. Reich couldn't help feeling that Prudential had avoided catastrophe by the narrowest of margins.

There were those at Prudential who wanted to fire Salomon over the fiasco. But faced with the time-consuming process of starting again, Prudential relented, so White set about salvaging the sales process. He telephoned Peter Malkin and told him the deal had collapsed. He asked Malkin if his bid was still on the table.

"Absolutely," said Malkin, his hopes rekindled. When he hung up, Malkin was convinced the deal would break in his direction after all.

Within days, however, Salomon unearthed another prospect, a Wall Street investor named Oliver Grace Jr. Remarkably, Grace bid \$39 million, nearly matching Renoir's bid. And he had pedigree. Onetime New York mayor William R. Grace had been his great-great-uncle, and industrial magnate Peter Grace was his second cousin once removed. White ordered an exhaustive background check. At one time, White discovered, Grace had mounted a hostile tender offer for a closed-end mutual fund. It was a controversial move, but hardly extreme in the cutthroat 1980s takeover world. Reich wondered why a man with Grace's savvy and connections would offer so much for a property with the meager income stream of the Empire State Building. Was this another ego trip? Reich told White he wanted to meet Grace directly.

Given the Grace family's stature, Reich was expecting a man with Wall Street polish. The man who presented himself to Reich had the slightly unkempt look of an eccentric professor, a bit overweight, his hair askew. Reich seated him in a conference room. He asked Grace why he wanted the Empire State Building. Grace paused for a moment, then looked Reich in the eye and explained in a soft voice that he planned to put the building into a trust for his children and grandchildren. When the lease to Helmsley and Malkin expired in 2076, the building would soar in value, to the benefit of his offspring. It struck Reich as a perfectly plausible motive. Reich invited Grace to join him in his office. Reich shut the door. "At \$40 million, I'll do the deal," Reich told Grace. Grace agreed. But he warned Reich that he didn't want his name to surface. "This is the Empire State Building," Reich replied. He couldn't make any guarantees, but he'd do his best. He assumed Grace was embarrassed to be overpaying.

On November 27, 1991, the deal closed. The Empire State Building was sold through a web of offshore trusts to E. G. Holding, a shell company set up by Grace. At a celebratory party, Salomon Brothers bankers passed out cufflinks engraved with the building's signature profile, and the bankers expressed relief about averting disaster. It would be some time before Reich concluded that underneath Oliver Grace's soft edges and quiet demeanor had lain a gifted liar.

Nearly two years, in fact, would pass before Grace's lie began to unravel.

One day, celebrity developer Donald Trump phoned Malkin at his office. By all appearances, the two real estate kingpins had practically nothing in common. With the exception of the Empire State Building, the bulk of the Manhattan

portfolio Malkin and his partners controlled was distinguished primarily by drabness and age, and Malkin himself seemed stuck in the bygone era when real estate men preferred that their names be unspoken and their vast fortunes untold. Trump, on the other hand, had turned attention-getting into a sort of core business philosophy, and he never tired of telling people that the Trump name added immense value to his glass office and condominium towers, which to some critics resembled gold ingots.

"I wanted you to know, I'm buying the Empire State Building," Trump told Malkin.

"Really?" said Malkin, not missing a beat.

"Yeah, it's the most amazing story," continued Trump. "Marla goes to this exercise class. And one day, the young Japanese girl on the bicycle next to her tells Marla that her father had given her the Empire State Building as a birthday present."

"That is an amazing story," agreed Malkin. "First of all, do you know that we have a lease on the property until 2076?"

"Oh, I know that," responded Trump. "But I'm talking about the ownership of the building."

"Well, as far as I know, the building is owned by a corporation that is the nominee for Oliver Grace Jr.," said Malkin, who had ferreted out the secret on his own. "E. G. Holding Company. I don't know of any Japanese owner. I think you may have something wrong here."

Trump seemed taken aback. "I'll check with my lawyers," he said, and hung up. Before long, Trump called back. He had checked with his lawyers, he told Malkin. It was true. He was buying the Empire State Building.

Now Malkin didn't know what to believe. Trump plowed ahead. "It was the greatest deal in the world. I didn't put up a dime," he said. The skyscraper had great potential, he continued. The top could be converted into apartment condominiums. Trump Empire State Building Tower Apartments,

said Trump, would be fantastic. They would sell for thousands of dollars a foot. A huge price. With his name and his promotion, Trump told Malkin, it would be amazing. Trump reminded Malkin that New York law wouldn't allow Malkin, as the building's lessee, to attempt such a condominium conversion himself. "You and I together could create something terrific," Trump told him.

"Well, Donald," Malkin said, "I don't think this would really make too much sense. We have over 3 million people a year who go up the elevators that are used for those tower floors, to go to the observatory. These would be tourists of all kinds and descriptions." Not the kind of people that owners of deluxe condominiums would want to share elevators with, Malkin suggested.

Trump told Malkin that if he couldn't do that, he would do something that would result in an increase in the rent. The somewhat menacing implication was not lost on Malkin.

"You can't do that, Donald," Malkin said. "The lease goes to 2076, and it's a fixed rent."

Trump hinted that he could force a change in the lease by demonstrating that the building had not been properly maintained.

"Donald, that won't work either," continued Malkin, "because we're in the middle of this huge, almost \$60 million improvement program for the building, which is more than we paid for it, and it's been going on for almost three years already."

"We'll see," said Trump. He hung up.

What in the world was going on? Malkin wondered. Malkin had been under the impression that he had solved the puzzle of Prudential's anonymous buyer two years earlier when he ferreted out the name of Oliver Grace. If there was even a kernel of truth in what Trump had told him, he had been sorely mistaken. The mystery, it now seemed, had only deepened. Malkin puzzled over Trump's claims: Trump is

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buying the building from someone I didn't even know existed. Trump isn't putting up a dime. And if we don't cooperate and convert the building into condominiums, I'm going to have a problem with the lease. Malkin realized that he was in the dark on the most basic question of all: Who really owned the Empire State Building?