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Seattle Mixed-Use Project Resurrected with Fresh Equity, Debt

Commercial Real Estate Direct Staff Report

The Seattle mixed-use development previously known as Potala Tower, which was halted in 2015 when its developer was charged with defrauding investors, has been resurrected.

The proposed 577,000-square-foot building, at 2116 4th Ave. in the city's downtown, was backed by Chinese investors who had funneled capital for it through the federal EB-5 program, which is designed to allow foreigners to earn permanent residency by investing capital into projects or businesses that end up creating permanent jobs.

That capital had been lined up by Seattle developer Lobsang Dargey, a native of Tibet, who had raised some $125 million, mostly from Chinese investors, for the Potala Tower and another project in Everett, Wash. But he was accused by the SEC in August 2015 of misusing some of the money he raised.

Earlier this month, he pleaded guilty to federal charges that he defrauded investors and the EB-5 program and faces $24 million in restitution payments and up to 10 years in prison.

While Dargey was raising equity through the EB-5 program, he had tapped Newmark Realty Capital Inc. of San Francisco to raise construction financing. It had teed up Guardian Life and Voya Investment to provide $100 million.

Most recently, Newmark arranged a venture between Molasky Group of Las Vegas and Binjiang Group of Hangzhou, China, to take over the project. The venture made a $30 million equity contribution to the project and is expected to preserve the project's EB-5 benefits to the original investors.

Dargey and receiver Michael A. Grassmueck agreed to sell the project to Binjiang Tower Corp. and PH LLC, or the Molasky Group, in May. The deal included a $30 million contribution from the two companies, along with a commitment to finish the project as it was intended, and a Washington state federal judge signed off on it on May 20.

Meanwhile, the construction/permanent loan that Voya and Guardian provided has a seven-year term. It requires only interest payments for a time, presumably during the 41-story property's construction, after which it begins to amortize. Newmark, a mortgage bank, will service the loan on behalf of the two firms. Its servicing portfolio totals more than $10 billion.

"This was an extremely complex capital stack and deal structure with many moving parts," explained George Mitsanas, principal of Newmark. The property, which is expected to be re-branded, will have 339 apartment units, 142 hotel rooms and 1,824 square feet of ground-floor retail space.

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