Daniel Wagner

Chemical's Hatkoff (right) and Klopp: "They've taken the best of a commercial bank and mixed it in with the best of an investment bank. The result is a high-powered real estate merchant bank"

REAL ESTATE

Chemical engineering

A commercial bank, of all things, is changing the way real estate financings are put together.

by William Meyers

Craig Hatkoff was nervous as his plane began its descent into the Midwest on a snowy winter day in 1985. Since coming out of business school, the eager 31-year-old executive had worked diligently to help establish Chemical Bank's fledgling real estate investment banking unit. Now he was about to meet Edward DeBartolo, America's most prominent shopping-center developer, a no-nonsense tycoon who at the age of 67 still drove himself and his subordinates hard. Just thinking about his impending meeting with the imposing developer gave Hatkoff butterflies.

The young banker had cause for anxiety. DeBartolo wanted to refinance five of his malls, and Hatkoff had come from New York to propose a radical new approach: issuing a $100 million Eurobond. Like most builders, the shopping-center mogul was still comfortable with traditional real estate finance. If he wanted to raise cash on his holdings, he would normally approach an insurance company for refinancing. Sitting down to lunch in the dining room of the Fonderlac Country Club, just outside Youngstown, Ohio, Hatkoff feared that DeBartolo might dismiss his innovative — but untested — idea out of hand. After explaining that the Eurobond could save the developer between $1 million and $2 million in interest costs, the banker mentioned that Chemical was prepared to assume part of the risk in the deal, an offer few commercial or investment banks would make. "The whole thing sounded pretty wild; everyone's head was spinning," recalls one