Hedge Funds Feel at Home in Greenwich

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For more than 35 years, the modest, four-story building here known as Two Greenwich Plaza was home to a hodgepodge of small shippers, manufacturers and lawyers.

Today, Two Greenwich Plaza is one of the most sought-after office buildings in one of the fastest-growing corners of the financial world. Hedge funds that together control more than $20 billion have taken over the building, driving up rents and squeezing out old tenants. One of the few holdouts is a law firm, Cummings & Lockwood, which now gets frequent calls from a hedge fund down the hall asking for its space.

When the law firm's lease expires in a few years, "it is unlikely that we will be able to stay," says Edward Rodenbach, a partner at the Stamford, Conn.-based firm, which opened its Greenwich outpost in the building in 1968. "The rents have gotten too high."

If the hedge-fund boom has a capital, it is Greenwich, a ritzy suburb of mansions and gated estates about 30 miles from Manhattan. More than 100 hedge funds -- private investment pools that cater to wealthy investors and institutions -- have set up shop here in the past few years, a sign of the industry's explosive growth. Greenwich-based hedge funds collectively manage more than $100 billion, about a tenth of the total invested in hedge funds world-wide.

The invasion reflects an escalating race for status and convenience among managers of hedge funds. Greenwich, a town of 62,000 located on the shores of Long Island Sound, is still mainly a residential community, with limited office space. Yet because many of the richest fund managers want to live in Greenwich -- and work close to home -- they're quickly turning the town into hedge-fund row.

"Not that long ago, you'd say you work for a hedge fund and people would say, 'What's that?' " says Chris Greer, a partner at Forest Investments, a $1 billion hedge fund in a northern section of town called Old Greenwich. "Now you say you work for a hedge fund and people ask, 'What's your strategy?' "

(His answer: "Convertible arbitrage, long/ short, event driven.")

Hedge funds and other financial-service firms now occupy 65% of Greenwich's commercial space, nearly triple the level of 2000, according to CB Richard Ellis, a commercial real-estate firm. Greenwich has so little commercial space that bidding wars have broken out for offices. Rents in parts of Greenwich are higher than those of midtown Manhattan.

Trains and roads into Greenwich are jammed at rush hour with traders reverse-commuting from their Manhattan homes, along with investors, corporate executives and bankers coming in for meetings. The Greenwich power grid is so strained from electricity-hungry trading floors -- large rooms filled with flat screens and high-powered mainframe computers -- that some hedge funds are installing their own gas-powered generators for backup. A scarcity of quick-food spots has prompted many funds to pay for breakfasts and lunches to be delivered to their employees.

In the afternoon, a steady stream of powerboats pulls up to the docks of Greenwich's Delamar Hotel to pick up executives commuting home to other towns across Long Island Sound. The Delamar, a former run-down motor lodge once nicknamed "The Dump" by locals, has been renovated to look like a Mediterranean villa and now charges up to $1,500 a night for a suite -- with many of its rooms going to hedge-fund investors and visitors.

Three of the 10 richest hedge-fund billionaires -- Paul Tudor Jones, Steven Cohen and Edward Lampert -- live in Greenwich. Mr. Lampert, the head of ESL Investments, was recently ranked by Institutional Investor magazine as the highest-paid hedge-fund manager in the world, earning an estimated $1.02 billion last year after orchestrating the merger of Kmart Holding Corp. and Sears Roebuck & Co. He gained particular local attention in 2003 when he was kidnaped from the parking garage of his Greenwich office building. (He was soon released and his captors caught.) A spokesman for Mr. Lampert declined to comment.

Mr. Jones, a former cotton trader from Tennessee who earned $300 million last year according to the same survey, owns a 13,000-square-foot home on a waterfront cul-de-sac. His firm, Tudor Investment Corp., has its headquarters in a mansion in Greenwich that was once owned by Time magazine founder Henry Luce.

Mr. Cohen, who the survey says earned $450 million last year running SAC Capital Advisors, has been expanding his 23,000-square-foot-home with a basketball court, skating rink and enclosed pool, according to town records. Greenwich has long attracted an upscale crowd. The 67-square-mile cluster of neighborhoods began the 20th century mainly as a beach resort. Titans of the Gilded Age, such as the Gimbel retailing family and the Havemeyer sugar refiners, built sprawling estates in town and helped fill the town's five yacht clubs and more than nine golf courses.

Today, local police wear white gloves to direct traffic and flower pots filled with pansies hang from lamp posts. Its main street, Greenwich Avenue, is lined with antique shops, dress stores and gourmet-food stores. While stars such as Mel Gibson and Ron Howard live in town, most residents are entrepreneurs, lawyers, bankers and corporate executives who commute to Manhattan.

Hedge funds started popping up in the early 1990s, when several Wall Streeters who lived in Greenwich quit their jobs to launch funds. New trading technologies allowed them to operate away from the big Wall Street firms, and many decided to set up shop near their homes. Connecticut offered a prestigious address with lower property taxes and income taxes than New York.

At first, the funds were a curiosity in Greenwich. The high-profile collapse of Greenwich-based Long-Term Capital Management in 1998 raised few eyebrows in a community accustomed to the ups and downs of wealth. In the past five years, however, the number of hedge funds world-wide has soared to more than 8,000, managing a total of more than $1 trillion. In Greenwich, the trickle of funds turned into a flood.

Nowhere is the impact more visible than on commercial real estate. In downtown Greenwich, 4.6% of space is vacant, according to CB Richard Ellis -- a sharp drop from 9.5% in 2001. Rents for prime space near the train station have soared to $60 to $70 per square foot, compared with the $53 to $55 typically charged for a high-rise in midtown Manhattan.

A small building in Greenwich, filled with hedge funds, recently sold for $97.8 million, or $743 a square foot, topping the average sales price of about $515 for prime commercial space in Manhattan.

Zoning laws in Greenwich make it difficult to build or expand commercial space, so funds have had to squeeze into old factories, retail shops and outdated offices. Ellington Capital Management, one of the world's biggest traders of mortgage-backed securities, is taking over the entire third floor of an office building tucked amid houses and condominiums in the Old Greenwich section.

When the firm moved in more than 10 years ago, "it was full of shipping companies and all sorts of other firms," says Ellington Chief Executive Michael Vranos, who used to run the mortgage-bond business at Kidder Peabody & Co. "Now, it's almost completely hedge funds."

Real-estate brokers say the waiting list for hedge funds trying to move to Greenwich is now nearly a year. Some funds that can't move in are simply adding Greenwich to their names. Old Greenwich Capital Partners, for instance, is operating out of Park Avenue in Manhattan until it can find space in Greenwich.

The name "adds a certain cachet," says Jeff Arsenault, a resident of Old Greenwich. The firm, launched in January, is a "fund of hedge funds," that invests in hedge funds. It has about $10 million under management. Hedge-fund managers say there are business reasons for being in Greenwich. Like Silicon Valley, they say, Greenwich is an industry "cluster" which draws more investors, pension funds, corporate executives and financial-services firms.

"If we were somewhere else," says Cliff Asness, founding partner of AQR Capital Management, "our investors would only come to see us when our performance stunk." AQR, based in Greenwich, has more than $6.5 billion under management.

Roland Burns, chief financial officer of Comstock Resources Inc., a Texas-based oil and gas company, brought employees and potential investors to Greenwich during a recent road trip to raise $180 million for a public offering of a joint venture. The team stayed at the Delamar Hotel, and held a breakfast meeting there with several hedge-fund managers and other potential investors.

"Greenwich has become a required destination for visiting investors when we bring a company public," says Wayne Andrews, a Houston-based research analyst with Raymond James, the deal's underwriter.

Yet the high cost of homes in Greenwich means only the top partners can usually live there. Greenwich was the fourth-most-expensive housing market in the country last year, with an average sales price for a four-bedroom home of $1.2 million. Fund managers are among the top buyers: Mr. Asness, of AQR, purchased a home in 2003 for more than $9 million, according to town records.

Mr. Cohen has spent $9 million on improvements to his home since he bought it in 1998; the property was assessed at $17.2 million in 2002, according to town records. Mr. Jones purchased his 13,000-square-foot home in 1994 for $10.7 million.

Meanwhile, hedge-fund traders and lower-level partners have to commute. The number of commuters traveling from Manhattan to Greenwich is expected to increase to 770 a day this year, up 15% from 2000, according to New York's Metropolitan Transportation Authority. The 6:23 a.m. and 7 a.m. trains to Greenwich are now just as packed as the trains going the other way to Manhattan. Because of the need for extra trains, the price of a morning fare to Greenwich was raised this spring to "peak" fare -- the same as the ride into Manhattan in the morning.

While there are signs that hedge-fund performance and investment may be slowing globally -- and a few big funds in Greenwich have recently slumped -- the boost to the local economy is going strong.

"Hedge funds call on a moment's notice -- they want a $1,000 order delivered by noon," says Frank Carpenteri, owner of Greenwich's Garden Catering, which has seen a big increase in business. Unlike the town's traditional residents, who fuss over price and selection, hedge-fund managers demand speed, he says. "The money is not a problem. When they want something, they want it now. It's an entirely new attitude."

The Indian Harbor Yacht Club in Greenwich, once used almost exclusively for social gatherings, is gaining attention as a hot spot for hedge-fund parties. Last month, a new group called the Connecticut Hedge Fund Association -- whose board includes representatives from Yale University and Tudor Investment -- co-hosted a Bermuda-themed party at the club. With increased business use, visitors are flouting the club's no-cell phone policy, an official says, forcing them to ask yammerers to turn off their phones or direct them to a designated cell phone area.

Charities also are glad for the growing presence of hedge-fund managers, some of whom have become the most high-profile philanthropists in town. Mr. Jones, of Tudor, who has lived in Greenwich more than a decade, is influential. A New York-based charity he helped start, called the Robin Hood Foundation, raises money to fight poverty. With a long list of members from hedge funds, this spring the foundation raised $32 million in a single night. In June, Mr. Jones hosted an annual Renaissance-themed ball for Greenwich's Bruce Museum of Arts and Sciences on the lawn of his corporate headquarters. At another event on his property, for a Kids in Crisis fund-raiser called "Hoedown goes to the Orient," local financiers dressed in jeans and cowboy boots and ate Chinese food.

"It used to be unusual for a charity to raise $1 million in a night," says Jim Lash, Greenwich's first selectman, the town's top elected official. "Now you are seeing that often."