

# The State of

By Jason Sheftell

# New York Real Estate

Who the heck are these guys and why should we care what they say?

Three of New York's biggest developers came together last month for a panel at the New York Athletic Club for Esther Muller's New York Real Estate Academy. Kent M. Swig, president of Swig Equities and co-chairman of Terra Holdings, the parent company of Halstead Properties and Brown Harris Stevens, is also the owner/president of Helmsley-Spear. From residential real estate to commercial holdings, Swig overseas \$3 billion in properties.

Jeffrey Levine, president of Levine Builders, has built more than 75 New York City properties, including thousands of residential units and hotels, hospitals, dormitories and retail centers. In 2005, he was appointed to the Mayor's Commission on Construction Opportunity.

Richard Mack, managing partner at Apollo Real Estate Advisors, was instrumental in bringing commercial and retail development to Central Europe. One of the most aggressive real estate lenders in the world, Apollo Real Estate Advisors builds affordable and high-end real estate all over the five boroughs and beyond. (He was also my college roommate.)



Kent M. Swig



Jeffrey Levine



Richard Mack

## New York is in a credit crisis, which is different than the job crisis

The real estate market in New York City is very strong.

The big difference between now and two other downturn periods in 1989 and 1991 is that then New York City lost about 350,000 jobs over a two-year period.

In this round, we're in a credit crisis, which is different than the job crisis.

You have to look at the entire U.S. market to understand what's happening. The commercial space vacancy rate for midtown is only 7.4%. It's just 5.9% in lower Manhattan.

That is really extraordinarily positive.

*Kent Swig*

## New York building will slow down because the city is built

The velocity is going to slow down simply because the city is very, very built.

The other thing on the commercial side is that probably 60% or more of the leases in New York City today are halfway under market,

or 50% below market-rate rents — not asking rents, but again, market-rate rents. *KS*

## New York is undervalued in rents

So you've got a city that is woefully undervalued in terms of rent. As leases turn, landlords are going to make more money. Maybe they're not going to get everything they thought they could get in asking, but the rents are going up throughout the city because it's relatively undervalued. *KS*

## There are not enough homes to buy

On the residential side, there is basically no inventory. I'll give you two statistics. One, since 2006, the condominium market rose 53% in price.

If you take out 15 Central Park West and The Plaza (two of New York's most expensive condo projects ever), it rose 18% in price. Those are big moves. Another statistic is that between 2002 and 2006, of every single home sold in Manhattan, about 18% was in new project development. Last year, that number

was 29%.

That is an enormous move, and it is not because everybody wants to go live in the new project developments that some of us are developing. It's because there is no inventory in the resale market. *KS*

## A low dollar is bringing more overseas buyers

The other difference from five years ago is that the devaluation of the dollar is bringing a lot more foreign buyers.

The United States will always be a recipient of capital from around the world as a safe haven. In the United States today, there is no place to invest like New York City. The international cities of Miami and Las Vegas are not as profitable an alternative for investment. *KS*

## Williamsburg is hotter than ever

I am still a very strong believer in the Williamsburg market. Today more than ever, Williamsburg captures the imagination of young people from all over this country.

If you go to the restaurants and boutiques,

you'll see young people from Nashville, Tenn., and from Arkansas. People are moving to New York and that's their first stop. *Jeffrey Levine*

## The velocity is gone

The velocity is gone in apartment sales below 96th St., but price points have maintained.

That makes a lot of sense because much like our buddy Roger Clemens and Jose Canseco, we were a market on steroids. Now, we're steroid-free.

The velocity has slowed down, but the market stays strong. The fact that first-time buyers — people that are in their late 20s, mid-30s — don't have to sell something in order to buy something makes them a very viable part of the market. First-time buyers are going to have great opportunities. *JL*

## Affordable housing and high-end apartments are in short supply

The two parts of the residential business that we like best in New York are affordable housing and the very high-end for-sale product because both are in very scarce supply.

We prefer to stay out of the \$1,200- to \$1,500-a-foot condo because those buyers are most susceptible to economic downturns. If you got paid \$20 million last year and get laid off, you can probably stay in your apartment.

But if you got paid \$500,000 last year, which is still a lot of money, you might decide not to sell your apartment or not buy the next \$1,200- to \$1,500-per-square-foot apartment. *Richard Mack*

## Is FiDi, the Financial District, really that good?

I took a look at New York City and one of the things that I wanted to do was invest in an area that had a secondary marketplace. So, in a commercial sense, if the economy went bad, you can still rent space.

That's one thing I learned to do. Invest in a sizable marketplace but have a secondary market with a lot of activity. Lower Manhattan at that time was the third-largest office concentration in the U.S. Midtown was first, Chicago was second. The second thing is it was the fastest-



From l. to r., Levine, Consolo, Swig, Muller and Mack

**Esther Muller poses a question.**



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growing residential neighborhood in the city. That was a good thing. The third thing is it has one of the highest occupancy rates in the hotel business. Who would have thought that? The fourth thing is it has the highest tourist traffic population in all of New York City, except for Times Square.

In regards to retail, it has the highest-grossing retail-per-square-foot sales generator — the World Trade Center. That's the highest on Earth.

Then the other thing that I thought is that the big commodity we have here is transportation. Where is more of this commodity than any other place on the island of Manhattan? Again, lower Manhattan. There is more railroad track per square foot than anywhere else on Earth. KS

workforce housing and home-ownership opportunity for this growing population base.

In one of our recent Bronx projects, we worked with the tenants association to acquire buildings from a landlord who was mismanaging the buildings. We then allowed tenants to buy their apartments for \$60,000 to \$80,000. The market value of those apartments is between \$250,000 and \$300,000. The idea here is to provide home ownership. We make money when people decide not to buy their apartments, and at the same time we provide home-ownership opportunities at a price below market value to people who have never had them before. This is part of a broader strategy we plan to implement in Queens and Brooklyn, as well as other cities nationwide. RM

### **Why would anyone invest in the Bronx?**

We have invested in the Bronx as part of a national strategy to reinvest in core urban areas. The Bronx has grown rapidly. It's one of those areas that was negatively impacted by the growth of suburbia, which started in the 1950s with Levittown in Long Island. Suburbia just sucked the population out of the New York City area and other cities.

Over the next 20 to 30 years, New York City will grow by 1 million people. Most of that growth will come from the immigrant population, and they are not going to move to midtown Manhattan. They're going to the boroughs. Some Bronx areas are not ready for prime time yet, but others are. We look at the boroughs as the best areas to provide

### **We need more quality. Buyers are getting picky**

One of the things we've noticed in the past few years is that apartment buyers are looking at everything, and I mean everything. In order to attract buyers, we've become very aggressive in giving brokers good splits on selling our units. It works. People need brokers to hold their hands through these large financial transactions. We need brokers to show our apartments.

Second, you have to build quality. Five years back, anyone with money wanted to develop real estate. So many people were building who didn't understand the process. Those builders are finding themselves out of the market now or sitting on unsold units. Now more than ever, quality counts. JL

## **The two who put it all together**

Esther Muller and Faith Hope Consolo, friends for more than 25 years, conceived the Developer's Panel together as a learning tool for Muller's New York Real Estate Academy, a state-licensed continuing education program for New York City brokers and agents. The idea was to think big.

"I wanted to introduce agents who sell these projects to the people who conceive them," says Muller, who has been working to educate brokers for 13 years. "It's important for people to understand the thinking that goes into development and how big developers decide to invest."

Consolo, the chairperson of Prudential Douglas Elliman's retail division, moderated the event. Her disarming style got these developers to really open up.

"I set a tone at the beginning by saying this is an opportunity to share their vision and insight about this bipolar, up and down market," says Consolo, who admitted to turning on the charm for the event. "It's the beginning of a new year and I wanted to hear them speak about good value and bad value. People love to share their vision."