A recovery, but when?

The Real Deal's *annual forum breaks down the market*

Some 1,400 people attended *The Real Deal's* sixth annual forum last month at Lincoln Center's Alice Tully Hall. The event featured an interview with Park51 developer Sharif El-Gamal, followed by a panel discussion with some of the biggest names in real estate.

El-Gamal said his controversial plan for the Islamic center near ground zero "is about doing the right thing as an American." (To read more with El-Gamal, see the Closing in the October issue, as well as stories at TheRealDeal.com.)

The panel, entitled "The Road to Recovery," featured hotelier Ian Schrager; Daniel Tishman, CEO of Tishman Construction; Jeff Blau, president of the Related Companies; Robert Knakal, chairman of Massey Knakal Realty Services; Howard Lorber, chairman of Prudential Douglas Elliman; and Diane Ramirez, president of Halstead Property.

The speakers agreed that a recovery is brewing, but it's not clear when it will arrive in full, or what it will really look like.

"We set expectations based on our experience," Tishman said. "One of the things that everybody is having trouble with is trying to figure out how the experience of our careers is going to relate to the future."

Below are excerpts from the discussion, which was moderated by Fox Business News anchor Brian Sullivan.

The audience during *The Real Deal's* event

"I think this is the time to be out there buying stuff. When things are bad, that's when you get aggressive about making acquisitions." Ian Schrager

Question: Are we out of the worst of it? Realistically, do you see the next 12 months being better than the last?

Ramirez: Absolutely, and I am a cautious optimist. I definitely believe we are out of the worst. We are recovering and we are technically out of the recession. ... It's slow and steady and I don't think we're going to see increases in prices, but there is movement.

Lorber: Prices are about 20 percent less on average, and I think the market has been set. ... I don't think it's going to get much worse, I don't think it's going to get much better. It could be five years [until a full recovery], it could be two years, but there's a lot of transactions; the sellers are more realistic, the buyers no longer think that things are going down 60 or 70 percent.

Q: Do you believe that we're out of a real estate recession or construction recession?

Tishman: We have seen on the private development side that there was a real hiatus last year. ... People are getting used to a new way of doing business. We're seeing a much greater volume of our developers, our private developers, whether it's in residential or retail or condominium office building, starting to talk about restarting the discussion about projects they had put on the shelf a year or two ago.

Blau: We really have New York and Washington that really stand out here, and then you have the rest of the country, and we wouldn't consider developing outside of those two cities. In those two cities we remain cautiously optimistic.

Q: Volumes are good for you, but is pricing good for anybody?

Knakal: Something we've looked at more closely than dollar volume is number of properties sold. The number of [commercial] properties sold only dropped 74 percent, and that sounds crazy to say it's down *only* 74 percent. But what we've seen so far in the first half of this year is sale volume is up, from a dollar perspective and from a number-of-buildings-sold perspective. And we've already surpassed in the first half of this year what occurred in 2009, and we're expecting the second half of this year to exceed what occurred in the first half of this year. There is some good news from a broker's perspective. ... The thing from a broker's perspective that we dislike the most is inertia. When nothing is happening, that's terrible. At least there's activity. And we're expecting, particularly toward the end of this year, we're going to have a lot of activity because of the anticipated increase in the capital gains rate. We've had a number of clients with properties on the market wanting to close before the year's end.

Q: How many people [on the residential side] are you seeing saying, "I'm selling or listing to avoid capital gains"?

Lorber: I don't see very much of that, [but] ... when the stock market goes through a period of two or three or four days down, you can see the level of activity slow down. A lot of it is mind-set and psychology. If the stock market is safe, mood goes up a little bit and people will buy.

Q: If you're not sure you're going to have a job, you're not going to buy a house.

Knakal: There's no metric that more profoundly impacts the fundamentals of real estate ... as employment. And we need 100,000 to 150,000 jobs created a month just to keep up with population growth, to keep people entering the job force. So we have a long way to go to capture the 8.5 million jobs that were lost in the recession.

Q: It is very difficult everywhere in the country. But do you think that New York can remain [slightly more] immune, as we have for the last year and a half?

Blau: It's hard to say, but New York benefits from really being much more diversified than it's ever been. [We're] still very dependent on the financial service sector, there was some good bonus news, and there's always a flurry of condo sales when that news comes out, so that's good. Washington is just government; as long as Obama's

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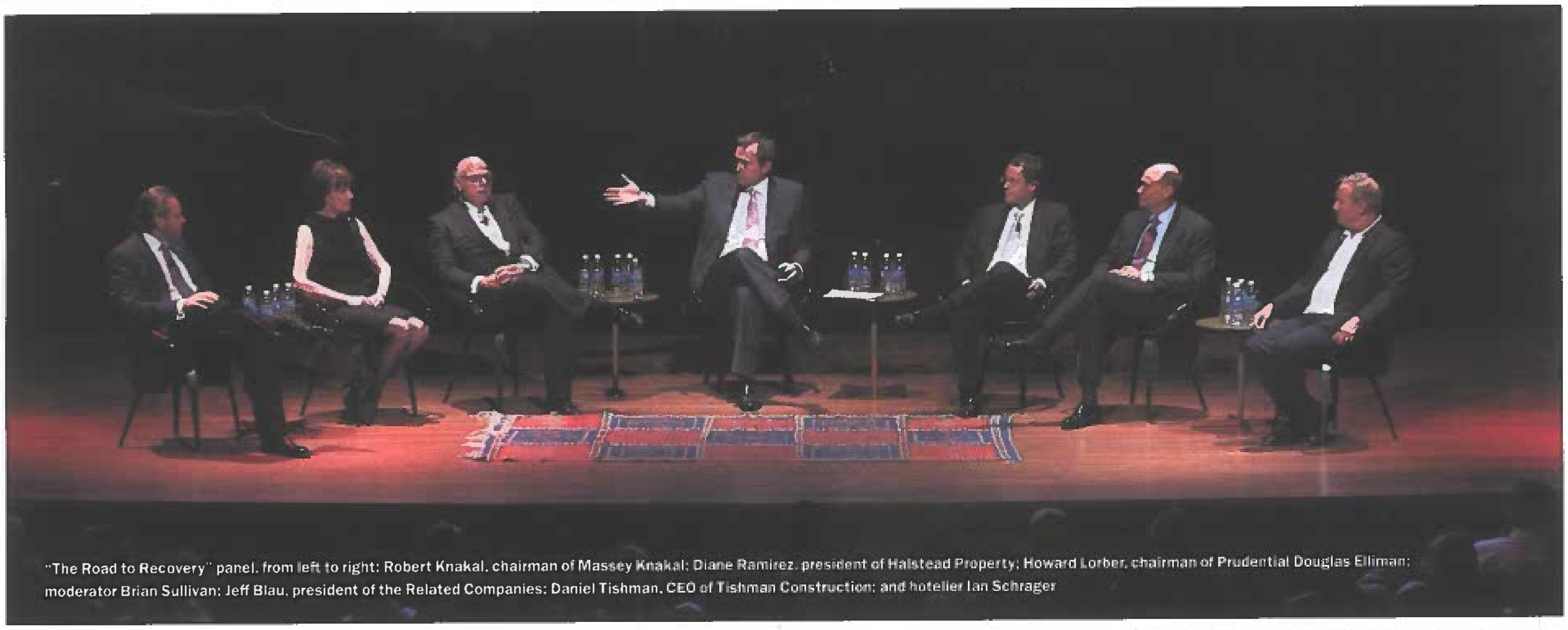
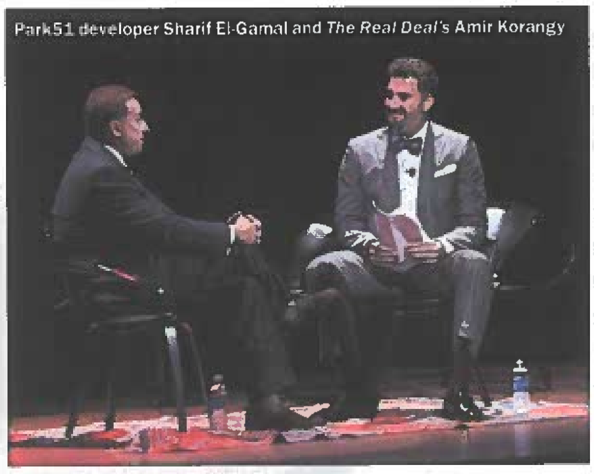


"The Road to Recovery" panel, from left to right: Robert Knakal, chairman of Massey Knakal; Diane Ramirez, president of Halstead Property; Howard Lorber, chairman of Prudential Douglas Elliman; moderator Brian Sullivan; Jeff Blau, president of the Related Companies; Daniel Tishman, CEO of Tishman Construction; and hotelier Ian Schrager



Park51 developer Sharif El-Gamal and *The Real Deal*'s Amir Korangy

A reception beforehand at Alice Tully Hall

in office, we're going to have government growth, so I think Washington is good for a while. [For] New York, it's going to be tough to maintain and keep it up.

Q: Why tough to keep it up?

Blau: We're really just bouncing on the bottom and I don't see what's there to cause the growth. ... It's going to be flat for a couple years. So if we're able to maintain the volume and transactions that we're seeing today, I think we're doing great, certainly in investment sales.

Q: The market can stay bad longer than the funds [waiting on the sidelines] can stay solvent. That money has to be put to work at some point.

Tishman: I'm much more optimistic today than I was 12 months ago. We set expectations based on our experience. One of the things that everybody's having trouble with is trying to figure out how the experience of our careers is going to relate to the future. I'm quite convinced that the future is going to be relatively unrelatable to the past in this one. ... [One big issue has to do with] this sort of large pool of nonperforming CMBS loans. ... Most people who are credit-worthy are okay. People who have properties that are not performing in an environment with no-interest financing are going to have problems, and the institutions are going to have to start dealing with that. We don't know now how the institutions are going to deal with them. That's going to inform us about what this recovery looks like once we get some clarity on what are the banks who have trillions of dollars' worth in CMBS going to do when those loans come due. Are they going to foreclose, are they going to forgive?

Knakal: I don't think it's just the CMBS loans either; it's a lot of the portfolio loans that are sitting on banks' portfolios. Right now those loans could be performing, and I think one of the dangers in the marketplace is that if you look at how value trends have shifted and how loans-to-values have shifted, there are thousands of buildings in New York City that have negative equity positions today that are still positively cash-flowing because of these extraordinarily positive or advantageous loan terms that were built into the '06 and '07 debt.

Q: Right, we in the media keep saying all these CMBSes are going to smack the commercial real estate market. We really haven't seen a huge implosion. Why not?

Blau: Special servicers have been very smart about this and have effectively waited everything out, so interest rates are low and they're much better off extending, modifying the loan...

Q: Is there opportunity out there?

Schrager: I think this is the time to be out there buying stuff. When things are bad, that's when you get aggressive about making acquisitions. ... I opened my first hotel when interest rates were, I think, 21 or 22 percent under Reagan. I mean, it comes around. When everything seems so dismal now, that is the time to be out there.

Q: So what's the best way to make some money in the New York market right now?

Tishman: I think the way to make money is, first and foremost, you have to understand it doesn't come easy. The first recession that I really lived through as the person at the helm of a company was '89, '90, then we went through another one in the late '90s, and the people that come out of them are the people who were skilled, had put in their time, and never believed that it was going to be easy. They are potentially risk-takers.

Q: What's going on with commissions [on residential deals]?

Lorber: Five and a half, six percent, I think that when you look at all of our deals ... the companies that have low commissions have [them], in many cases, because they don't have an infrastructure, they don't have overhead, they don't spend any money in marketing, they don't have to [create] websites and they can afford to do it for a lower commissions. If you provide services that the big brokers provide, it would be pretty hard to make any money and stay in business if you went down to two or three.

Q: When will we see the first development in Hudson Yards?

Blau: We actually have been surprised by the tremendous amount of interest on the corporate side at this time in Hudson Yards. And I think it really all comes down to... we're at a bottom, and people don't feel like we're falling off a cliff anymore, and at the end of the day, companies have to make decisions. So leases mature, companies are buying other companies, and they have to consolidate space. They are finally making real estate decisions, where there were no decisions made for 18 months. And so we are now working with several large corporate tenants [with interest in] a million-plus square feet who would consolidate in the West Side yards, and I think that will kick-start the development in the next two-year period of time.

Q: Within 24 months we will see something start?

Blau: We will see construction.

Q: Corporate parties. They are a good sign of how corporations feel. Will you be having a holiday party?

Tishman: A heck of one, somewhere, I'm not sure where. ... People want to go out and I see that there are small private parties happening. [But] we canceled it for the last couple of years. It's just not appropriate for a large company today to make a statement back like we did years ago.

Ramirez: Absolutely, it's December 20. We actually have a holiday party every year. Everybody's tightening their belts a little bit, but we felt that we've all worked very hard and we thought we needed it for the agents. And the prices you were able to get for the places were attractive, so we made the expense, and we have never missed a holiday party. And I love to dance. TRD