

# CONCRETE THOUGHTS

## A Holiday Wish List

Glad tidings for many—and lumps of coal for some!

**A**s we are in the midst of the holiday season, I thought I would share with you my wish list for those who are either directly or indirectly participants in the New York City commercial real estate marketplace.

**To the U.S. economy and our local New York economy,** I wish three things: jobs, jobs and jobs. Jobs make our economy run and, the sooner we have job growth, the sooner our economy will get back on its feet.

**To distressed-asset buyers,** I wish you patience. Patience because I speak with you every day and hear the frustration in your voices. Clearly, the number of distressed assets coming onto the market has not been nearly what we anticipated a year ago, but have faith, because those distressed assets are out there and in significant numbers. We estimate there are 15,000 properties in New York City with negative equity, and a meaningful percentage of these will be recycled over the next two to three years as we go through our de-leveraging process.

**To commercial real estate investors,** I wish you a clear memory. A memory that can recollect some basic principles of real estate invest-

market, your access to public capital puts you in a unique position to be a dominant force in the years to come.

**To our local community and regional banks,** I wish you appreciation. Appreciation for your commitment to keep debt flowing throughout the credit crisis and facilitating the overwhelming majority of the transactions that we have closed since the summer of 2007.

**To the commercial and money center banks,** I wish for you an invitation back into the commercial real estate lending pool. The water is warm, the spreads are high, the risk is low and we all miss you.

**To all bankers,** I wish all you “fat cats” thick enough skin to not be dismayed by Washington’s opinion of you. The administration expects the impossible of you: increasing your capital reserves while simultaneously being asked to lend more. This is like asking someone driving a car to go faster while applying the brake.

**To out-of-town lenders and special servicers,** I wish you knowledge—the knowledge that, in New

York, your access to public capital puts you in a unique position to be a dominant force in the years to come. New York needs you, and your recent dysfunction and shenanigans may have made Ringling Brothers proud, but they have not served any of us.

**To the New York City Council,** I wish you time for contemplation. Contemplation of two things: First, please figure out who you think is rich and who you think is poor. At present, you support the position that someone making more than \$200,000 per year is rich enough to pay the “millionaire’s tax.” Concurrently, you take the position that anyone earning up to \$240,000 per year should be protected

under rent welfare. Please determine whether these folks are rich or poor. Secondly, please contemplate the ramifications of your decisions. Several of the positions you have taken, from the residential rent-regulation modifications to the MCI increase, commercial rent control, and your desire to control the way tenants can operate in new developments (through your position on the Kingsbridge Armory transaction), will all lead to thousands of lost jobs for New Yorkers, a deterioration of our residential and commercial building stock and an erosion of our real estate tax base.

**To all of the politicians and neighborhood groups who supported the City Council’s position relative to the Kingsbridge Armory transaction,** I wish you nothing. I wish you nothing because you already received your wish. Several of you said that you would rather have no jobs at all rather than jobs that didn’t meet your standards. You have gotten your wish. There are now no jobs related to that site. Congratulations!

**To Fed Chairman Bernanke,** I wish you clairvoyance. The clairvoyance to tighten monetary policy at exactly the right time. As a student of the Depression, you know that tightening too soon could be disastrous for the economy, but if you wait too long, we could be faced with hyperinflation. We are all hoping that additional asset bubbles are not currently being created with your near-zero-rate policy. But we wish you well in picking the right time to tighten.

**To members of Congress,** I wish you all calculators, to help calculate the massive amounts of interest that the U.S. will owe on all of the debt being racked up by spending all of

the dollars that we do not have. Also, I wish you the time to actually read the bills you vote on.

**To all of my friends at REBNY,** I wish you success. Success with the new “action center.” The REBNY membership is 11,000 strong, and you know that we will do all that we can to help make this initiative a success. Our voice needs to be heard and will be. We appreciate everything that you do on behalf of our industry.

**To the Real Estate Roundtable in Washington, D.C.,** I wish you stamina. The stamina to keep up the fight for the issues that are so important to our commercial real estate industry. Your focus on modifications to REMIC guidelines have paid huge dividends, and the battle to modify or repeal FIRPTA is important for our capital markets. Keep up the good work.

**To Mayor Bloomberg,** I wish you agility. The agility to continue to keep the quality of life in the city at a very high level, even in the face of significant budget cuts. After Mayor Guiliani was elected, the demeanor of the city was changed dramatically, prompting massive increases in tourism and residency. Under your continuation and expansion of these policies, New York has become the safest large city in the U.S.

**To the residents of New York City’s two million non-rent-regulated apartments,** I wish for you to have a realization. The realization that every day you are subsidizing every one of the one million rent-regulated apartments in the city. If you are renting, you are paying higher rents because of the constrained supply of available apartments created by the rent-regulated tenants, and if you own a co-op, condo or single-family residence, you are paying higher property taxes because of the low property taxes being paid on properties containing rent-regulated units. Modifications to the rent-regulation system, transforming it to one based upon need rather than luck and tenure would greatly reduce the subsidies that you pay each and every day.

**To retail space brokers,** I wish you continued increases in consumer confidence and consumer spending. The numbers last month were well ahead of expectations and, to the extent spending continues, it will provide the incentive for retailers to expand and flourish.

**To office-leasing brokers,** I wish you top-line corporate revenue growth. We have seen corporate earnings, but they have been

mainly the result of cost cutting and downsizing coupled with top-line revenues falling. We have already witnessed significant increases in productivity, which generally precedes revenue growth.

**To my fellow brethren in the investment sales business,** I wish you a higher volume of sales in the market. This year will likely end up with turnover at least 25 percent lower than any year we have seen going back to at least 1984. Turnover will probably end up between 1.1 percent and 1.2 percent this year, and any 2010 level that approaches the long-term average of 2.6 percent would be a welcome happening for each of us.

**To residential appraisers,** I wish for you rationality in the minds of those trying to regulate your industry. It is amazing that appraisers from upstate New York are coming into the Manhattan market to perform appraisals in markets they know nothing about.

**To commercial appraisers,** I wish for you a significantly increased volume of sales so that you have more data points upon which to base your estimates of value. This is particularly true in the land market, in which there has been an extraordinarily low number of sales in 2009.

**To the New York City real estate press,** I wish you a debt of gratitude on behalf of my firm and myself. For another year, you have been very kind, and it is greatly appreciated.

**To all of the members of my Massey Knakal family,** I wish you the ability to realize how proud Paul and I are of what you have accomplished this year. This has been, without a doubt, the most difficult year we have seen since 1984, and your hard work, dedication and commitment to excellence has been inspiring.

**To my personal team members at Massey Knakal,** I wish for you an understanding of the tremendous admiration I have for each of you. You always exceed my expectations, and I feel very fortunate to be working with such a great group of people.

And finally, **to each and every one of you,** I wish you peace and joy this holiday season, spending time with loved ones and appreciating all of the blessings in our lives.

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**Robert Knakal**  
Columnist

**To REITs,** I wish you plenty of napkins. Napkins to clean up the drool coming out of your mouths as you salivate over the opportunities that you will be extraordinarily well positioned to take advantage of based upon your access to public capital.

ing that we all lost sight of: Debt is wonderful when all goes well, but extremely punishing when things go wrong; debt rollover renewal is the real risk of using short-term debt, not an increase in the interest rate; and when money is easy, the benefits accrue to the sellers, not the buyers.

**To real estate developers,** I wish you faith. Faith that, at some point, construction financing will be available again and there will be end-user demand for the buildings you build. You may choose to enjoy a nice vacation for the next two to three years, but someday you will be very busy again.

**To REITs,** I wish you plenty of napkins. Napkins to clean up the drool coming out of your mouths as you salivate over the opportunities that you will be extraordinarily well positioned to take advantage of based upon your access to public capital. The REIT sector has raised more than \$20 billion recently, and given the evaporation of the CMBS

York, nonperforming notes are being sold for approximately 90 percent to 100 percent of collateral value. In other parts of the country, the foreclosure process is more streamlined than you are finding it to be in New York. Note sale recoveries here have been extraordinarily high without having to go through the two-to-three-year foreclosure process.

**To Governor Patterson,** I wish you continued intestinal fortitude—the intestinal fortitude to make tough decisions on spending cuts. During this decade, New York has lost a net 1.5 million residents, who have decided to move out of the state because of our incredibly high tax burdens. You were well ahead of the curve focusing on the need to cut spending in response to our massive deficits and received little support from the Legislature.

**To the New York State Assembly and Senate,** I wish you functionality. The functionality to find a