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# What Does Chick-fil-A Have to Do With Real Estate Activity?

Three distinct threats hover over New York City's commercial real estate market, and, yes, Christine Quinn's views on the Georgia-based chicken purveyor is one of them

As we head into summer's home stretch, it is difficult to see very clear trends in New York's commercial real estate market. Leasing activity has been mixed, and the building sales market has seen dramatic improvement since 2009, but transaction volume is not close to where it was in 2007. "Uneven" probably most accurately describes the current state of the market.

Moving forward, there are three distinct threats to the health of our commercial real estate market. They include interest rates, real estate taxes and who the next mayor of New York will be.

With respect to interest rates, clearly the health of the sales market has been impacted profoundly by our extraordinarily low interest rate environment. These low rates have allowed owners of marginally healthy distressed assets to hang on. They have also exerted tremendous downward pressure on cap

rates, thus pushing property values to levels higher than those attained during the peak in 2007.

The risk is that, to the extent rates were higher, the drag and level of distress within the market would be significant. While Fed Chairman Bernanke indicates that he intends to keep rates low through 2014, the Fed really has very little ammunition left with which to control rates. The markets will determine how quickly, and to what extent, interest rates rise.

Real estate taxes in New York City also pose a significant threat. Here, real estate taxes are targeted

at a percentage of revenue that is nearly double (and in some cases three or four times as high as) that of any other U.S. city. Top-line revenue increases over the past couple of years have been eroded by tax increases. Property values, on average, dropped 38 percent from 2007 to 2010, yet we have not seen a single year in which real estate

tax assessments dropped. Given the condition of municipal budgets, it is unlikely that politicians will cease using income-producing properties as ATM machines to pay for budget shortfalls.

The third risk revolves around our next mayor. The tourism industry and the business community have profound implications for the long-term health of our economy. Recently, tourism has been a major shot in the arm for New York's relatively robust recovery. Clearly, the low value of the dollar relative to foreign currencies has helped enormously. This made it relatively inexpensive for foreigners to travel to New York while making traveling abroad too expensive for many Americans.

Tourism has also boomed because of the relatively low crime rate that the city has experienced. Each of the current contenders for mayor in 2013 has come out in opposition to the NYPD's stop-and-frisk policy, which has proven effective over the years. I wonder if these folks shop for shoes at a bakery. The NYPD, as it should, focuses its efforts on the areas with the highest crime rates.

Almost on cue, when the number of stop-and-frisks was limited, there was a dramatic increase in gun violence. Keeping tourism thriving is a necessary ingredient for a flourishing economy.

It will also be important for the administration to have a pro-business yet balanced approach. The million or so people who are projected to come to New York over the next 20 years will not come to live here without jobs. Mayoral candidates who endorse the new living-wage and prevailing-wage bills cannot be viewed as pro-growth. Economics teaches us that the more costly something is, the less of it you get. Therefore, by definition, there will be less of these higher-paying jobs.

Equally dangerous is the position that those who have opposing views are not welcome to do business in New York. The recent incident with Chick-fil-A, in which the chairman expressed his perspective on gay marriage, led some of the candidates to call for the eviction of the store from one of its locations. What's next? Will those who oppose a woman's right to choose

be banned from living within city limits? Will those who oppose gun control be restricted from owning a business within the five boroughs? As Mayor Bloomberg said last week, "You can't have a test for what the owner's personal views are before you decide to give a permit to do something in the city."

These three threats to our commercial real estate market are very real. We hope interest rates don't rise too much, too fast, and require a rational real estate tax policy. We also need a mayor who can balance providing support and benefits to those in need with creating an environment where citizens can flourish. The U.S. was created to encourage and foster human accomplishment, and creating hurdles to that is not in the city's long-term interest.

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