

The 2011 Holiday Wish List

Making a list and checking it twice, Ol' St. Knakal knows who's been naughty and nice

As we come to the end of what has been a very interesting year in the real estate market, I would like to present my annual holiday wish list for a variety of participants in our commercial real estate market. Some of these participants impact our market directly, others indirectly and some only tangentially. In the past, some of these have been controversial; however, what has become an annual tradition will continue here today.

To Governor Cuomo, I wish thanks for restoring my faith in the belief that campaign pledges are often abandoned shortly after a candidate takes office, demonstrating that you can't believe anything politicians say. For a while, the governor had me believing that he wasn't going to raise taxes in New York. This was a mantra that he campaigned on and now he has abandoned that pledge. He did lower taxes for most New Yorkers but his reversal on the millionaire's tax (which was predicted by Sheldon Silver) reinforces that campaign promises are meaningless. Of course, Mr. Cuomo has earned high marks on many fronts and has accomplished more than most people could have expected. For that he deserves kudos. Let's see what his capabilities are relative to pension reform, without which fiscal stability and reasonable tax policy moving forward are impossibilities.

To John Liu, our city comptroller, I wish the realization that you have lost the trust of New Yorkers (even many of your union supporters) and are unable to adequately represent the taxpayers. This realization should lead you to resignation. The comptroller is supposed to be fiscally responsible and yet you are the only elected official to not pay fines for illegally posting campaign banners (over \$350,000 is owed to the taxpayers). Additionally, while your campaign finance practices are being federally investigated and you are returning thousands of shady contributions, should New Yorkers trust you with a \$120 billion pension fund? The writing is on the wall; perhaps it's time to read it.

To opponents of the Kingsbridge

Armory development, I once again wish for you nothing at all as you have already, indeed, gotten your wish. You hoped for no jobs rather than jobs you didn't like and you have gotten the no jobs that you wanted. Now, nearly two years later, the 1,000 construction workers that would have been working at the site have lost millions of dollars and the 1,200 permanent jobs that this development would have created are even more elusive for the mostly local residents who would have received those jobs. And the Bronx has the highest unemployment rate in the city. Well done!

To supporters of the living wage bill in New York, I wish you the time to read about what happened at the Kingsbridge Armory and understanding of the impact that multiplying that debacle geometrically would have on the city. Not only would it hurt affordable housing but the FRESH program that would bring fresh produce to underserved markets in New York would be all but obliterated.

To Wal-Mart executives, I wish you the continued intestinal fortitude to look for a location in New York City and open a store here. Most New Yorkers want you, will support you and, notwithstanding the conflicts of interest faced by politicians who are trying to keep you out, we-wish you success in coming to the Big Apple.

To the supporters of the Dodd Frank legislation, I give you no better example of the failings of regulation of this sort than MF Global. Dodd Frank didn't stop this financial debacle from happening and has caused significant setbacks for corporate America. In particular, financial institutions in New York are adversely affected by this regulation. Some of these firms have reported that their profitability may be impacted by as much as 25 percent. To the European Union, we owe you a vote of thanks for showing that even the most socialistic of societies can take steps to make their economies more sustainable over the long-run. It is unfortunate that these moves have been made at a

time when there is no choice and your backs are to the wall.

To Mayor Bloomberg, I wish you many pats on the back for the tremendous job you have done for the city and even though this is your third term, which is often a difficult one for any candidate, you continue to be a champion of the city and do that things that are in our best interests. While your strained relationship with the governor and the Legislature would be debilitating to most mayors, you continue to push for a better city. I have a feeling we will miss you greatly after 2013.

For the U.S. economy and our local New York City economy, I wish you jobs, jobs and more jobs. From the real estate industry's perspective, there is nothing that more profoundly impacts our fundamentals than jobs. The rate of job growth nationally has not even been enough to keep up with population growth. Locally, we have fared better, but given several recent announcements of layoffs, particularly in the financial sector, the focus on jobs must remain front and center.

To New York City officials, I wish for you the realization that the Landmarks Preservation Commission and the Department of City Planning should not be two separate entities but should actually be merged into one. This would avoid agenda conflicts and opposing objectives that are presently inherent between two vital city agencies.

To all of my friends at REBNY, I wish you the continued strength to keep fighting the good fight for the betterment of New York City and of our real estate industry. There are many important battles to fight next year including finding a legislative solution to the irresponsible J-51 Roberts decision, creating a more equitable real property tax system, implementing a restoration of 421a type benefits (particularly in high density areas), and encouraging elected officials to see the continued benefits of planning that both increases density in appropriate areas and increases preservation in areas deserving of it. Thanks for all you do for our industry.

To buyers of New York City real estate, I would like to remind you of

the historically proven adage that debt is wonderful when all goes well, but extremely punishing when things go wrong. Additionally, when money is easy, the benefits accrue to sellers, not buyers.

To potential property sellers, I wish for you the realization that it is extremely likely, in 2013 and beyond, that capital gains rates will be significantly higher than they will be in 2012. If you are considering the sale of a property, it would be in your interest to put the property on the market no later than mid-summer of next year. In 2010, so many clients came to us in October, November and even December wanting to close by year end to take advantage of low rates that were anticipated to go up in 2011. Many of those transactions were unable to get completed before the end of that year and they were pulled from the market. It is probably a good idea to start thinking about those decisions sooner rather than later to take advantage of our current capital gains tax rates.

To distressed asset buyers, I wish for you large cases of aspirin as you must have massive headaches from looking for, and not finding, the tremendous bargains that were anticipated three years ago. Distressed asset prices have been very high and, while we anticipate distressed real estate assets continuing to come to market over the next two years, they will be coming to market but not at prices that will leave anyone feeling they are getting a great deal.

To real estate developers, I wish for you the confidence that the market will be tangibly better two or three years from now, when present projects will be coming online. An extrapolation of our current fundamentals lead to the expectation of significant supply constraint moving forward, which should make these new developments highly profitable. This trend can be observed in today's escalating land values.

To Real Estate Investment Trusts, I wish you the continued success that was predicted years ago when we saw the dysfunction of the CMBS market become a reality. It is not surprising that you are involved in most of the major transactions occurring in the city, as your access to public capital has created a tremendous competitive

advantage.

To retail space brokers, I wish you the continued ability to bring new retailers to the city, which keeps the market vibrant, growing and interesting. These new tenants make the city dynamic and are an integral part of advancing the city into this century.

To mortgage brokers, I wish for you continued low Treasury rates, which create tremendous motivation on behalf of the community banks and small regional banks that are such an integral part of the lending horizon here in New York. These low Treasury rates have made lending much more profitable and have motivated these lenders to put debt capital into the market in increasing numbers.

To the commercial real estate appraisal industry, I wish you the gratitude that all of my brokers at Massey Knakal feel toward you for the tremendous amount of referral business that you send our way on an annual basis. As always, we remain happy to share all of our market information with you.

To all members of my Massey Knakal family, I wish for you a sharing of a sense of pride that Paul Massey, our senior management group and I have from seeing you go out and work so hard every day to represent our clients to the best of your abilities. Ours is not an easy business and can be challenging at times but each of you makes it fun to come into work each day. Thank you for that.

To my personal sales team, I appreciate the long hours and the many late nights and weekend time that you put in to help increase the probability of success that we strive for. You guys are the best in the business and I greatly appreciate everything you do for me.

And lastly, to each and every one of you, I wish a blessed and joyous holiday season, enjoying time spent with loved ones and a happy, healthy and prosperous New Year.

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Mr. Knakal is the chairman and founding partner of Massey Knakal Realty Services and in his career has brokered the sale of more than 1,175 properties, having a market value in excess of \$7.8 billion.



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