

Checking His List

Our columnist spares no coal lumps—nor sugarplums!—for New York’s politicians, his fellow real estate pros and the economic Grinches stealing fiscal cheer

As the year draws to a close, it is time to dole out holiday wishes for those who are either directly or indirectly related (or in some cases not related at all) to the commercial real estate business. In a year in which politics has been such a central theme, why not then begin with taking stock of how our elected officials have performed?

To Governor-elect Cuomo, I wish intestinal fortitude and unbuckling knees to withstand the assault the public-sector unions will unleash on you when you follow through on your pledge to reform spending on public-sector compensation. Your pledge to cap real estate taxes at the lesser of 2 percent or the rate of inflation can be achieved only with fundamental modifications to collective-bargaining and pension agreements. Pension compensation will reach an all-time high next year and has reached the point at which we are paying our retired workers more than our active workers. This is unsustainable and must be addressed. The minute cutbacks are proposed in education or health care; millions of dollars will be spent on television commercials blasting you for such actions. The message must get out that education and health care make up approximately 50 percent of the state budget and, without cuts in these areas, a balanced budget is impossible given your “no new taxes” pledge. This won’t be easy, but is very necessary, and we wish you well fighting this battle.

To soon to be **ex-Governor Patterson**, we wish you the ability to find the backbone that you couldn’t find when dealing with the spending cuts that you knew were right but couldn’t follow through on. To your credit, you were well ahead of the curve in terms of identifying the fiscal tragedy that was facing our state, and you knew that cutting spending, particularly on public-sector compensation, was the only way to substantially bridge the budget deficit. You proposed the right set of cuts, but when the TV commercials started to go against you, you wilted like a papier-mâché hat in the rain.

I wish **Attorney General-elect Eric Schneiderman** the insightfulness to investigate every elected official who is in any way connected to a nonprofit organization. It seems you can’t pick up the paper today without reading about a politician who has family members, girlfriends or associates on the payrolls of nonprofits that they founded and that are funded substantially by public funds from the city or state. Nonprofit credit cards are used to buy elaborate dinners, trips, tickets to Broadway shows or ball games or other personal expenses (think Pedro Espada). This appears to be the biggest racket within political circles. Why not crack down on these scam operations and demand transparency?

To **Wesley Snipes**, I wish a copy of **Charlie Rangel’s** new book, *How to Not Pay Taxes for*

17 Years and Stay Out of Jail. Mr. Snipes’ biggest mistake is that he didn’t become a politician and is therefore now serving three years for failure to pay taxes. Mr. Rangel didn’t pay all of his taxes for 17 years and all he got was a public scolding from his cohorts—not a bad deal at all when you think about it. Had a private citizen done the same thing, they might be sharing a cell with Mr. Snipes at this very moment. Is the lesson here that becoming a politician allows you to do anything you want with limited repercussions?

To everyone who was involved in administering the initial bidding process for the Aqueduct racino project, I wish several big rocks that you could all climb under to shield yourselves from the obvious corruption that occurred in such a transparent way. If that wasn’t a microcosm representing the dysfunction and incapability generally exhibited by our elected officials, I don’t know what was. **State Inspector General Joseph Fisch** should be commended for his probe into the Aqueduct/AEG scandal. This probe, fortunately (or unfortunately as the case may be), illustrated just how polluted some sectors of the Empire State’s Legislature have become.

To **Off-Track Betting**, I wish you good riddance. This organization was probably the only bookie joint in the history of humankind that lost money. This is a quintessential example of the fact that government can’t run anything more efficiently than the private sector. If there is anything that should have been sold and privatized, it was OTB.

To **all opponents of the Kingsbridge Armory development**, I’d once again wish you nothing because you received your wish of no jobs at the armory site rather than jobs that didn’t pay what you consider to be the appropriate wages. In New York, the unemployment rate in the construction industry is in excess of 25 percent. One thousand of those workers could have been working for the past year, but for your misguided agenda. Another 1,200 unemployed New Yorkers would have been one year closer to gainful employment if you hadn’t injected your living-wage requirements into this project. You had a private-sector company willing to spend \$310 million on the rehabilitation of a hulking, empty eyesore, which is depreciating in value every day (even after the city spent millions of dollars to prepare the property for a bidding process), producing no benefit to the community and no tax revenue for the city. Your grand plan was to create a panel of college students to come up with schemes for the redevelopment of the property. Are you kidding me? Nothing at all in your stockings!

To **Wal-Mart executives**, I wish you support for your initiative to open a store in New York City. In what would be one of the most ironic real estate transactions in history, per-

haps you should purchase the Kingsbridge Armory without any public subsidy and open a nonunion mega-store in the building. Now that would be something to see. Good luck coming into the market. Polls show that a majority of city residents would love to see you here.

To **Mayor Bloomberg**, I wish you continued success doing such a fantastic job running the city. Mayor Giuliani started the process and made significant strides cleaning up the quality of life in this town. You have continued to enhance that quality of life, while at the same time doing a remarkable job keeping the city’s fiscal house in relative order during a tremendously devastating economic recession. You fought hard to protect our No. 1 industry; other national-level elected officials from New York abandoned those working in the financial industry for their own personal political gain. Although you say that you’re not interested in running for the highest office in the land in 2012, it would be nice to see someone with pri-

To the lame duck members of Congress, I wish you the ability to comprehend that the American people want the ridiculous levels of government spending to stop. The omnibus spending bill currently being negotiated includes such critical expenditures as \$277,000 for potato pest analysis in Idaho; \$183,000 for beaver management in North Carolina; and \$423,000 for dart board research and development in Montana (you couldn’t make this stuff up if you tried).

ivate-sector experience, who has actually taken an economics class, representing the people.

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To the **U.S. economy and our local New York economy**, I wish the same exact thing I wished for last year: jobs, jobs

and more jobs. For our economy, and more importantly for our real estate industry, nothing impacts the underlying fundamentals of our marketplace more than the number of jobs created. While it appears that fundamentals have stabilized, to see appreciation in building values, we need tangible enhancements in the underlying fundamentals. Job growth will make this happen.

To **distressed asset buyers**, I wish you either yoga or meditation lessons to alleviate the tremendous frustration that you must be feeling. An acute supply-demand imbalance has left buyers wondering where the next deal is going to come from. The number of people looking to buy significantly outweighs the number looking to sell. This, in addition to an extraordinarily low interest-rate environment, has exerted upward pressure on value, creating even more inertia on behalf of discretionary sellers. On the positive side, distressed notes and properties are likely to continue to come to market over the next two years as the de-leveraging process, which began in 2008, continues. As those 2006 and 2007 vintage loans mature, opportunities will present themselves from both banks and special servicers. In this market segment, patience will truly be a virtue.

To **real estate developers**, I wish for you the foresight to understand that the amount of new product that has been delivered to the market over the past two decades is far less than the amount delivered in the 1950s, 1960s, 1970s and 1980s. At some point, a supply shortage will kick in, and new product will be in significant demand. Those who have the guts to begin projects when others are timid may just be the ones to reap the largest benefits down the line.

To **REITs**, I wish you more of those napkins I wished for you last year. Knowing, as 2010 started, that the lack of activity in the CMBS market would cut off public capital to real estate, REITs were going to be in a position to take advantage of their access to public capital. And, sure enough, throughout this year, REITs were among the most active buyers in the New York City marketplace. Although the CMBS market is showing signs of life, the public capital raised by REITs will continue to provide them with a competitive advantage in 2011.

To **all bankers**, the building sales market owes you a debt of gratitude for finally delivering significant quantities of distressed assets to the marketplace in 2010. Without the significant number of note sales, and some REO sales, the activity in the market would have been substantially lower. The recoveries you have been able to achieve have been remarkable, relative to collateral value, so it is no wonder that you took advantage of current market conditions to capitalize on today’s market dynamics.

To **all of my friends at REBNY**, I wish you appreciation and continued success as you fight for so many issues that are important to



Robert Knakal
Columnist

CONCRETE THOUGHTS

everyone in our industry. Your relentless focus on issues that are so vital to the health of our market are often underappreciated. Your participation in and dedication to fighting for us has earned our gratitude.

To **retail space brokers**, I wish continued increases in consumer spending and consumer confidence. As these metrics continue to move in a positive direction, discretionary spending will continue to increase,

bolstering the health of retailers and the value of retail space and mixed-use properties.

To **mortgage brokers**, I wish you continued low interest rates, which will keep transaction volume flowing. With low interest rates, prices will be compelling for discretionary sellers, and refinancing opportunities will be tempting for long-term holders. Either way, transaction volume will continue to increase as long

as our interest-rate environment remains stable.

To my **fellow brethren in the investment sales business**, I wish you continued sales volume increases as we continue to climb out of what was an absolutely abysmal year in 2009. Things certainly feel a lot better this year than last; however, we are still not even close to the long-term average sales volume achieved over the past 25 years. Even if we attain only

an average year, volume will be nearly triple last year's levels.

To the **commercial appraisal industry**, we owe a big thank-you for all of the referral business you sent our way in 2010. It is heartwarming to receive the thank-yous for all of the market information that we send your way; but the sale referrals you send to us in reciprocation are tremendously appreciated.

To the **New York City real estate press**, I wish you gratitude for how kind you have been to me and my firm this year once again. I have a newfound appreciation for what you do every day, based upon my writing this column. I haven't had to deal with deadlines since exams in college, and having to complete this work by a certain time, without fail, has made me very compassionate toward what you face on a regular basis.

To **all of the members of my Massey Knakal family**, I wish sincere appreciation and admiration for your hard work and dedication to your craft. Making it through 2009 was no easy feat, but the drive and determination exhibited in 2010 allowed us to have one of our best years ever. Paul Massey and I, and our entire senior management team, could not be more proud of

each of you.

To **my personal team members at Massey Knakal**, I wish for you an understanding of how very grateful I am for the tremendous effort you put into what you do every day. The late nights and weekend hours are never overlooked, nor taken for granted, and are what make you the best team in the industry. There is no way I could do what I do without each of you.

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 we have in our lives.

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Robert Knakal is the chairman and founding partner of Massey Knakal Realty services and in his career has brokered the sale of more than 1,100 properties, having a market value in excess of \$6.8 billion.

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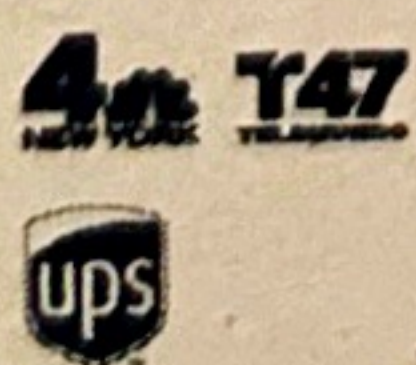
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