Creating Value

An Interview with Neil Rubler,
President and Chief Executive Officer, Candlebrook Properties, LLC

Neil Rubler

EDITORS' NOTE *For the past 15 years, Neil Rubler has been responsible for directing and overseeing real estate investments and development projects, with an aggregate value in excess of $5 billion, across the multifamily, hospitality, office, and retail sectors. Rubler also serves on the Executive Committee of the Wharton Real Estate Center, the Executive Committee of the Association for a Better New York, the Board of Directors of the Real Estate Board of New York, the Board of Directors of the Rent Stabilization Association, and the Cornell University Council. He graduated magna cum laude with a B.A. from Cornell University and received an M.B.A. from The University of Pennsylvania's Wharton School of Business.*

COMPANY BRIEF *Candlebrook Properties (candlebrookproperties.com) is a leading owner-operator of apartment properties throughout New York and New Jersey providing the highest level of residence quality and service through skilled management and operational innovation.*

Would you provide an overview of the range of things Candlebrook Properties is engaged in?

Our core business is multifamily. That's not because I specifically designed the business that way; it's where we have seen opportunities.

When I started the business in late 2005, I had been running a family real estate company and the market was already showing signs of being frothy.

I decided the prudent thing to do in starting a new business was to invest in the safest part of the real estate space I could find which was, at the time, rental housing in New York City.

The acquisitions I had done previously were all office acquisitions.

We were able to differentiate ourselves, build a platform, develop a reputation, and attract the interest of institutional investors in rent-stabilized housing. This remains a part of our business, although with far less of a focus than in 2005 through 2007.

When the recession hit, I decided to refocus our business toward cash-flowing assets. New York City rent-stabilized apartments are essentially a capital-appreciation play while multifamily in most other markets is income-producing. It was an opportune time to apply the same operating philosophy we had regarding customer service and quality management to properties with a very similar tenant demographic across the Hudson River in New Jersey. We were looking at the same income levels, the same rent levels, and the same effective quality of housing demand – it's the same middle-income workforce housing – except we were able to buy at very attractive cash returns and thereby significantly reduce our risk profile.

We found like-minded institutional partners and started to buy apartment complexes in a series of transactions.

In 2013, we had a unique opportunity to buy a 650-unit, 1960s vintage apartment complex in King of Prussia, Pennsylvania. King of Prussia is one of the best housing markets in the country, and this property was originally built as a luxury rental at the very highest point of King of Prussia with gorgeous 360-degree views. Over the years, it had fallen into tremendous disrepair. We teamed up with Lubert-Adler and decided to go all-out, and restore the property to its intended position as the best rental property in Philadelphia's Main Line market.

While our garden apartment strategies are modest rehab – $10,000-per-door-type stuff – the King of Prussia project is literally about taking everything down to its structural elements, putting in all new building systems, all new finishes, and all new amenities, and taking it from a property that was 30 percent leased with serious issues at every level when we acquired it to an absolutely gorgeous, super-luxury apartment property.

In 2009, anything any of us bought had built-in upside, but in today's pricey real estate market, operators need to be that much more adept at creating value within an asset, that much more imaginative and better at execution. The King of Prussia deal reflects that type of heavy value-add.

With prices now exceeding pre-recession levels, does the market appear sustainable?

If you look at the long-term trend line of New York City metro area real estate values, it is an unmistakable upward trend. It's just bumpy along the way.

At any point within the past 100 years, if you stopped and took stock of where you were, you might be at a peak or trough, but along the overall continuum, the future still offered appreciation and upside.

In this cycle, it's hard to ignore that valuations are being driven substantially by interest rates. We're in a leveraged business and everybody is looking at their bottom-line returns, so the more advantageous the leverage, the higher a price one can justify.

It's disconcerting to me that we haven't seen fundaments improve in any sector of the New York real estate economy to the extent that you would expect at this point in the cycle, eight years in. I don't think that our residents are generating the types of raises at work that would suggest they can afford to pay higher rents; we're not seeing the demand in the office sector that would suggest that office rents ought to rise, or spiking demand among business travelers in the hotel sector that would really drive rates.

Yet we are seeing substantial property value appreciation, so if you ask me how this compares to the last cycle, it feels as though the market is similarly debt-driven, and so has already priced in much of the upside that we all hope is going to materialize. That said, it's tough to feel confident in any predictions because we're in such uncharted territory with respect to all of the liquidity in the system, and there is not a lot of data to suggest what happens when you start to withdraw all of that liquidity. Many smart investors believe we are going to see a lot of inflation, and of course that would be great for real estate. It's never clear what the short-term will bring. It's why investors need to be positioned to take advantage of the long-term trend by avoiding overleverage and staying focused on adding value.

Will a large percentage of the population be priced out of this market?

You touch on a substantive problem. The seemingly insatiable demand for luxury product, for condominium product, has driven land values to the point where it's incredibly difficult to find any land that works for development as rental housing.

We look at opportunities in the condo space. We run the numbers, we talk to the brokers, we do our comp work, and we realize that the average price of the apartments in the building we're thinking of building is $5 million, and it leaves me scratching my head as to where all of these multimillionaires are going to come from that can afford these apartments.

The bedrock of the housing stock in New York City has always been rental. As the city grows, it won't grow on the back of people buying multimillion-dollar condos; it will grow on the back of creating more rental housing. That's definitely where our focus will be. ●