An Opportunistic Company

An Interview with Steven C. Witkoff, The Witkoff Group

Steven C. Witkoff

EDITORS' NOTE *Steven Witkoff is a New York real estate investor, landlord, and the founder of The Witkoff Group. Prior to forming the group in 1997, Witkoff co-founded Steller Management Company. He earned a J.D. from Hofstra University, after which he practiced law at Dreyer & Traub and Rosenman & Colin, where he represented a number of large developers and investors.*

COMPANY BRIEF *The Witkoff Group, LLC (witkoff.com) is a vertically integrated real estate development and operating company with in-house teams focused on acquisitions, development, design, construction, financing, sales and marketing, and asset and property management. As of 2014, Witkoff owns a portfolio of about 30 properties across the United States and in London. In November 2013, the Witkoff Group announced their $660-million purchase of the Helmsley Park Lane Hotel.*

Has recovery taken place in real estate and is it sustainable?

Everyone in the real estate business ought to pay a tribute to Mike Bloomberg because he created an environment for New York City that makes it a wonderful place to live and work. Whether it was balancing the city's budget, bringing in police commissioners focused on reducing crime, managing the unions, or improving the quality of life for residents, Mike positioned the city as a place where people and businesses from all over the world want to be.

In the wake of Dodd-Frank, which continues to negatively impact the financial services industry – one of the key economic drivers for New York City – Mike took steps to mitigate the impact and diversify the city's economy. He created a tech initiative that has emerged as an enormous growth industry and has been one of the leading drivers of employment growth for the city.

Have interests rates come down? Yes. Has a monetary policy driven by quantitative easing buttressed the economy in lieu of a coordinated federal fiscal policy? Yes. The result is an economic recovery that has seen fewer jobs but a material increase in asset prices.

New York City's commercial real estate values have rebounded sharply. However, this trend is not entirely driven by increased commercial leasing and higher rental rates. The market is buoyed by a huge influx of foreign capital that is attracted to the relative investment risk of New York.

New York City is an amazing place. Every time there is a world crisis, foreigners look to invest their money in the U.S. We continually see increased demand for New York City as a safe harbor for global capital. Wealthy foreigners want to be in the city so they buy apartments here and have offices here. Relative to other global gateway markets, New York City continues to offer an amazing balance of quality of life and investment safety. This is what is happening in New York and thankfully we haven't done anything to deter it.

Mayor de Blasio has taken some good steps to continue to drive growth. He has brought in the right person in Police Commissioner Bratton, with a continued focus on keeping New York safe. I also agree with the mayor's initiative on affordable housing as a necessary driver for the long-term prosperity of the city.

Are there opportunities in a market like this?

Substantially less. We are an opportunistic company. I am originally from the Bronx and I could not afford to think generationally. So it's in my DNA to look for damaged situations where there is entitlement risk, a building issue, an operational turnaround, or a property that has to be repositioned for a higher and better use through a public rezoning process. Unfortunately, today it is challenging to find those opportunities and those deals are often overpriced on a risk-adjusted basis. For example, in today's market, we have seen land trades above $600 per square foot for sites that are unentitled. You then need to factor in the risk that you will get it reentitled, negotiate with the city on the affordability component, and navigate the design/review process before public community boards. During this entire process, you are carrying the land and need to absorb the financial risk of a future shift in interest rates. Further increasing the risk, you are building into a rapidly rising construction cost market.

This equation was different three or four years ago when we executed a number of acquisitions as we sensed there was huge upside potential to be realized and the market was not efficiently priced for development. We acquired a couple of projects at a basis that provided upside. Today, the market is fairly priced so the risk profile is different.

Many believe the market won't go anywhere but up, but I don't. I live with an intense fear of failure that drives my strategy at each stage.

What current developments do you have in the works?

We bought 150 Charles in 2003 and carried it through the worst financial crisis in my lifetime. We entitled the land and built the premium luxury condominium project in the West Village. When we launched sales, we sold out in 12 weeks. We might have undersold it. However, we successfully executed our strategy on behalf of our investment partners and believe that our residents, when they move in, will perceive they bought something of value.

I bought 10 Madison Square Park West at a bankruptcy auction from the estate of Lehman Brothers. We executed on a complex conversion from a vacant office building into a luxury residential project and created incremental value by relocating square footage from the building core to create five new floors with premium view units at the top of the building. This project is also nearing completion and is almost 100 percent sold.

701 Seventh Avenue is a 39-story, 350,000-square-foot, ground-up mixed-use project located in the heart of Times Square. The project consists of a 452-room Marriott EDITION hotel, approximately 76,000 square feet of retail facing Times Square, and an 18,000-square-foot LED sign, one of the largest in Times Square. The project will also offer 40,000 square feet of food and beverage including an outdoor plaza on the 8th floor directly overlooking Duffy Square.

We are developing the PUBLIC Hotel & 215 Chrystie Street Residences, a 25-story mixed-use project located on the Lower East Side. The project includes a 367-room hotel – the first New York location for Ian Schrager's PUBLIC hotel brand – and 11 for-sale luxury residences located on the top floors.

Another large scale project underway is 101 Murray, which we are developing in partnership with Fisher Brothers. This 440,000-square-foot luxury high-rise residential condominium tower is being built in Tribeca.

Is it harder for you to be as engaged as more projects have come in?

Naturally, but I am supported by a strong team of experienced real estate professionals. Today, the Witkoff Group has over 40 professionals with expertise in project management, design, construction, finance, operations, and asset management. However, we still maintain a tight-knit organization and continually focus on improving our execution to create value and exceed expectations. ●