Resiliency and Strength

An Interview with Kent M. Swig,
President, Swig Equities, LLC

Kent M. Swig

EDITORS' NOTE *In addition to his ownership of and responsibilities at Swig Equities and HelmsleySpear, Kent Swig is Owner and Co-chairman of Terra Holdings, LLC, a company that owns and operates several real estate service firms, including Brown Harris Stevens, one of the oldest and largest residential real estate service providers in New York, the Hamptons, and Palm Beach; Halstead Property Company, a residential brokerage and management company; and Vanderbilt Holdings, a service firm with expertise in appraisal and consulting, advertising and marketing, insurance, and residential mortgage brokerage. Swig is also a principal in The Swig Company, a family-owned real estate and hotel company based in San Francisco and New York, which owns approximately nine million square feet of commercial properties across the United States. Swig earned a degree in Chinese history from Brown University, and attended UC Hastings College of the Law (San Francisco), where he was selected for the law review.*

COMPANY BRIEF *New York-based Swig Equities (www.swigequities.com), which also has offices in San Francisco, is a real estate development, investment, and management firm that purchases and develops prime residential and commercial buildings, operating companies, and securities.*

Did the speed and severity of the economic crisis surprise you, and in terms of recovery, where do you see us today?

I saw a problem with our financial structure in 2005, because money was too easily available at very low interest rates for deals that tended not to make sense. The market could not sustain itself like that, and I thought a solution to curb the flow of financing was to raise interest rates, which have been very detrimental to my business. So I stopped buying properties in 2005, and refinanced my properties with long-term debt at very low and reasonable interest rates. But the problem was not to be solved by raising interest rates, and instead, a financial meltdown occurred. So the depth of the downturn and the financial meltdown surprised me, but the speed with which it happened did not.

Where do you see the real estate market within the scope of the crisis?

On the residential side for New York City, the market started to decline in August 2008. Today, transaction volume has already regained much of the loss that occurred, albeit at a new financial paradigm in regards to pricing of apartments; prices are down anywhere from 18 to 24 percent, and the market has begun to stabilize. While the rest of the nation was detrimentally impacted for the past two years or more, New York City experienced an 11-month severe economic downturn that hit both transaction volume and pricing. Now pricing has stabilized and transaction activity is strong, which shows the resiliency and strength of New York's residential marketplace.

In terms of the commercial market, I would divide it into two categories: buildings with debt coming due in the next three years and those with debt coming due beyond the next three years. Rents had climbed so fast and it became fairly commonplace to see rents throughout the city between $125 to $220 per square foot on Park Avenue, Fifth Avenue, and Sixth Avenue, for instance. Now these rents have fallen to between $75 and $100 per square foot, which is still high by historical standards. And our vacancy rate is just 10.9 percent in Manhattan. In past recessions, a 10.9 percent vacancy rate was a goal to reach, as vacancy rates in past recessions were much higher than that. The problem today remains lack of liquidity and lack of credit in the marketplace. Thus if a property has its debt coming due within the next three years, this is a problem.

As the downturn ends, do you foresee prices getting back to where they were?

I don't know how long it will take, but New York City's market has historically always regained lost value. Even in the '70s, when we experienced job losses of more than 760,000 people and a population loss in excess of 1.1 million people, we regained within 24 months of the low point of values all of the lost value in real estate. Today, the real question is, how long will it take? In most of the past recessions we have experienced, residential values regained all of the loss of value, plus more, within a period of 12 to 24 months from the economic bottom, which it appears we have now reached. On the commercial side, New York is very built out and there is little vacant land. So adding supply to the commercial inventory is very difficult to do, even if financing were to be available, which it is not. Also, very few speculative commercial office buildings were recently built, in contrast to the mid-'80s, when a great deal of building occurred. Our supply is very much constrained, and that is what is going to allow us not to reach the depth of vacancy that we have seen in past recessions, as well as to ultimately regain stability and value in the marketplace.

As your company grew, did you feel it was important to maintain an entrepreneurial culture, and is it more challenging to do that as a company gets larger?

It could be seen as more challenging, but I look at it in the opposite way. As one's company becomes larger, if properly disciplined, one can afford the luxury of being slightly less entrepreneurial and more "institutional." We have the ability – based on the size of human and financial resources – to be more institutional. Thus we can maintain an entrepreneurial edge with a more conservative and detail-oriented structure. This sometimes prolongs decision-making and makes the process more bureaucratic, but it is also more organized, more detailed, and ultimately more beneficial with fewer risks. I've been working to implement more institutional policies and procedures within our firm during the past three years, but an entrepreneurial vision has never been an issue.

How has HelmsleySpear evolved, and have you been happy with the progress there?

Yes, I am happy with HelmsleySpear and we are doing well. A down market is actually a good opportunity to expand an operating company, because that is when brokers and other human talent make changes. Clearly, a financially challenged market like this makes it more difficult to operate, but we have been able to grow our brokerage firm. We have picked up more brokers, more property management assignments, and have created a capital advisory group with the understanding that real estate today needs to combine the disciplines of both the capital markets and the more traditional real estate skills in order to effectuate business for real estate properly. If one doesn't combine both skill sets, then one is only firing on half a cylinder. So in order to prosper and succeed in today's market, we have essentially created a little "investment bank" within HelmsleySpear to blend with and be complementary to our real estate expertise. We are hopefully slightly ahead of the curve. ●