

Enhancing an Icon



Empire State Building

An Interview with Peter L. Malkin,
Chairman Emeritus, Empire State Realty Trust and Chairman, Malkin Holdings LLC

EDITORS' NOTE Peter Malkin is a leader of investment entities that own and operate approximately 11,400,000 square feet of office, showroom, and retail space; a collection of mezzanine finance pools and industrial properties; and 2,700 apartment units. Malkin is the Founding Chairman of the Grand Central Partnership, Inc. and of the 34th Street Partnership, Inc., and a founder and Director of the Fashion Center Business Improvement District. He is Co-Chairman of the Emeriti Board of Lincoln Center and Co-Chairman Emeritus of the Real Estate Council of The Metropolitan Museum of Art; Chairman of the Dean's Council of the Harvard Kennedy School of Government; Co-Founder and Honorary Co-Chair of the Committee Encouraging Corporate Philanthropy; a Vice President and Director of the Realty Foundation of New York and a partner in the Partnership for New York City; and a Governor Emeritus of the Real Estate Board of New York. Malkin received his A.B. Degree *summa cum laude*, Phi Beta Kappa, from Harvard College in 1955 and his law degree *magna cum laude* from Harvard Law School in 1958.



Peter L. Malkin

COMPANY BRIEF Malkin Holdings is recognized as the original and preeminent real estate syndicator in the United States. Lawrence A. Wien, the firm's Co-Founder, with Peter L. Malkin, assembled a portfolio of syndicated properties, including the Empire State Building.

Has the New York market truly come back and is it sustainable today?

The residential market is very strong; not only the extremely pricey condominiums, but the rental market has come back to better than where it was. There is virtually no apartment vacancy in New York.

Commercial is not as strong as residential. The vacancy in Manhattan is a bit over 11 percent and it's generally assumed that a 10 percent vacancy is the turning point where it becomes landlord strong.

Downtown is still about 13 percent and commercial leases are being made at reduced prices. The World Trade Center properties have been slow to fill up – One World Trade Center has just reduced its asking rents.

Larry Silverstein's project, Seven World Trade Center, has done very well, although 3 and 4 have been slow.

Midtown Manhattan is at a little over 10 percent vacancy. We have had very strong renting at the Empire State Building, where we're continuing our program of rebuilding the building that at one time had as many as 900 small tenants and now has about 200 larger, more credit-worthy tenants.

So as the turnover goes on, the occupancy at this point is something over 87 percent and probably at least 5 percent more is space that is in transition and not yet available.

We have had great success with major tenants: LinkedIn came in originally at 6,000 feet or so and it's now up to 150,000 feet. We take pride in the fact that we have as tenants both the FDIC and former FBI Head Louis Freeh, who has set up his own security consulting firm in the Empire State Building.

We have more than one million square feet in our existing buildings that we're continuing to convert and upgrade for larger tenants. Close to 750,000 square feet of that is in the Empire State Building and the balance is spread among other buildings in the Empire State Realty Trust portfolio, which is mostly midtown Manhattan. The Trust has exercised its option to add about a million and a half additional feet to the portfolio. We also have properties in Westchester and Fairfield Counties, which are at transportation centers so they are highly occupied and at rents that are top of the market in Stamford, White Plains, Mamaroneck, and Norwalk.

There continues to be strong occupancy in midtown South, south of 34th Street, with high-tech start-up companies. We don't accept as tenants burn rate companies, which are burning up investor capital – they have to be established and profitable companies first for us to rent to them.

In midtown, how critical is it that zoning issues be addressed?

Rezoning properly has a tremendous impact. Hudson Yards is a prime example. Eliminating industrial zoning or making it less restrictive would permit tremendous improvement in the Garment District.

The new Administration has started with what is called micro-zoning where they have proposed to rezone the square block from 42nd to 43rd between Vanderbilt and Madison. It looks like this will result in major new building.

We hope the overall midtown East rezoning will come back to life, which would be helpful to the economy of New York, not only for construction jobs but also by creating space that meets current needs.

With the growth of new markets in the city, is there a concern we're pricing a large part of the population out?

Building so-called luxury or market rate housing doesn't stop you from building moderate income – what stops that is zoning, not permitting enough density to make a property with moderate income units financially feasible.

There has been a lot of publicity with what happened in Brooklyn with the Domino Sugar development. It was basically an increase from 20 percent to 30 percent of the units for moderate income. This wasn't a huge difference, but in return, the new administration permitted greater density and height. This could be a successful formula that would permit more price diverse housing.

Another big thing the Bloomberg Administration tried to do but didn't succeed at was making it possible for the Housing Authority to permit the building of high-rise apartments on open land in public housing developments. This is something that could be revived and could make possible a lot of additional moderate-income housing.

With the perception of the Empire State Building as a tourist attraction, how do you get tenants to understand that it's also a high-quality office building from which to run their businesses?

To convey that, we limited the tourist entrance to Fifth Avenue. The commercial tenants use the entrances on 34th Street and 33rd Street, so that separates tourists from commercial tenants.

We also created a campus in the building with one of the largest gym/health clubs for tenants only and a high-quality tablecloth restaurant, in addition to the largest Starbucks in New York and several other restaurants.

A lot of the high-tech young people love the iconic, historic building. They want open space, high exposed ceilings, and concrete polished floors, and we cater to those desires.

In addition, we restored the lobby and, throughout the building, we put in all new corridors and bathrooms, more efficient air-conditioning, energy-efficient windows, and the most modern elevators. We have reduced energy consumption by about 40 percent with great savings to our tenants. ●