

# The State of New York Real Estate

An Interview with  
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**EDITORS' NOTE** Kent Swig is also Owner and Co-Chairman of Terra Holdings, LLC, which is the parent company of Brown Harris Stevens, Halstead Property, and Vanderbilt Insurance. He is also Owner and President of Helmsley Spear, LLC; Owner of Falcon Pacific Construction, LLC; and Principal in the Swig Company. Swig holds a bachelor of arts degree in Chinese History from Brown University. Kent attended Hastings College of Law in San Francisco, where he was selected for the Law Review.



Kent M. Swig

## What is the state of New York City real estate today?

The residential market is strong. The perception is that the marketplace is weakening, especially at the top end, but the market is extremely strong and prices are extremely high. This strength is leading buyers to begin to withdraw from the market because they are concluding that pricing is too high and choices are few.

The second aspect of the marketplace is that demand for the super high end is scarce at best. Manhattan produces approximately 14,000 transactions per year on average. We peaked at 18,000 in 2006; from 2008-2009, it dropped to almost 9,000, but it came back to its full demand level by the end of 2009.

Of the 14,000 units sold annually, there are roughly 350 units per year (for all product types) that sell for more than \$10 million. Of that, there are approximately 75 units that sell for more than \$20 million. Needless to say, it is a very thin market at that price level.

If one looks at the 57th Street corridor, and two blocks north and three blocks south, there are approximately 700 units in that price range that have either just been completed or are under construction.

The result is that we have a multiyear supply for this unique segment of the marketplace, and there is an abundance of units for razor thin demand. The press has mistakenly reported weakness in this segment, but it is not weak, rather it's scarce.

These units will sell, but it will take time. They are all priced at very high levels, and the market cannot sustain that. This is coupled with the slight withdrawal of buyers because prices are very high,

so it appears that there is a weak market, but that is not entirely accurate.

On the commercial side, New York is strong, and there are big changes going on throughout the marketplace. Many tenants have relocated to Lower Manhattan, particularly large tenants going to the World Trade Center area.

In addition, Hudson Yards has also created a big migration from Midtown to the Westside. This indicates that tenants are seeking high quality, efficient, and brand new product.

With the commercial migration to Hudson Yards comes the development of many wonderful residential units. The unique situation is that this Westside development has been able to build a brand new neighborhood all at once.

The impact is particularly hard hitting to the Midtown East commercial market, as the office product there is quite old. However, with the pending Midtown East rezoning, we should experience new development occurring in the Midtown area such as One Vanderbilt, which will resolidify Midtown East's preeminence for commercial tenants.

It will be interesting to see if the rezoning results in some of the buildings converting to residential instead of commercial. We are dealing with 24/7 activity in all areas, so residential is now desirable even in traditionally commercial areas.

## How do you focus your time when you are involved in so many different companies?

With Terra Holdings, specifically with Halstead and Brown Harris Stevens, we have a very large infrastructure. The areas where we, as owners, penetrate and make a difference is varied, but it's not like everything is needed all at once because we have a strong staff.

Acquisitions is one area where we focus; Brown Harris Stevens now has five offices in Miami and Halstead has grown tremendously in Connecticut and New Jersey. We also announced that we bought the third-party management division of Rose Associates.

Additionally, I just formed a new division for Helmsley Spear called Helmsley Spear Lockwood, which is focused on the hospitality segment of the marketplace.

## Would you touch on the hospitality focus?

We formed our new division with Lockwood Development and we're seeking, as brokers, properties for their fund, both acquisition and

disposition. In the process of looking, we find a lot of other properties that are available in the marketplace, and we will be undertaking third-party brokerage, which will be a nice addition for our Helmsley Spear brand.

## Is New York City at risk of losing its diverse base as a result of the high cost of housing?

There actually is such a thing as affordable housing within New York's definition, but not according to the rest of America. Pricing is very expensive. Construction costs are high and, typically today, land for residential is priced at condominium values.

However, that pricing is starting to adjust. There is recognition that there is not an infinite price point where one can ask any price for any kind of product.

The city's housing stock is comprised of two-thirds rental and one-third ownership. In the rental segment, in particular, we need to build more affordable housing, which isn't just low income; it's affordable housing for people who work in everyday jobs. Housing costs have become crazy, so we need to think creatively in order to add more affordable housing.

One suggestion is to rezone low zoning areas like Queens Boulevard to accommodate higher density residential along with a requirement to add affordable housing, say 35 percent or even 50 percent of the units. If people want to take advantage of this rezoning, they can; if they don't, they're in the same place that they were before the rezoning. In this regard, the city will create an incentive for the development of new affordable housing as opposed to imposing affordable housing requirements onto current development projects, which is a disincentive to build because it penalizes owners who bought land under current zoning rules. To change the law in the middle of the game is not right.

## How much of a concern is it that there will be an oversupply of retail in New York City?

The retail market is not going to have the rent growth that it once had, and rents have actually declined.

However, the impact on the retail market from e-commerce may prove to have a positive result on our quality of life. The retail tenancy of "big box" users will decline in favor of retail tenants who produce those little things that can't be purchased online. The character of New York will be enhanced as a result. ●