

Real Estate Forefront

Emerging Developments in the NYC Marketplace, #8

Manhattan Sales Market Evolution

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A funny thing happened as the real estate market started to lose heat over the last year: as so many tried to get out of the kitchen, many of the veteran players stepped off to the side and into the parlor, in effect, abandoning the open public markets to engage in business behind closed doors. This was not a new way of doing business in this town, quite the contrary. It was, in fact, a return to the traditional way of trading real estate in Manhattan.

In the old days – from the first Dutch settlers to the 1990s – nearly all commercial real estate in New York City was sold without e-mails, websites, computers or even exclusive sale agents. Sales were handled privately. Owners called on the handful of brokers in the business who had relationships with the vast majority of potential investors, and properties were sold with a few pages of information and the private phone call.

Property ownership up until the 1990's was very different as well. Despite being the largest real estate market in the world, the bulk of New York City investment grade properties were controlled by a relatively small group of owners numbering in the low hundreds, and dominated by the large real estate families with names like Durst, Rose, Litwin, Resnick, Manocherian, Goldman and others. And when these owners wanted to sell their property, they sought brokers quietly. Only those investors who knew the right brokers had the opportunity to make bids. New York City was one of the few markets in this era where the bulk of the property that was sold was done “off market.” Every other major real estate market across the nation sold properties with an exclusive broker who listed their property for the whole public market to view. Marketing materials were simple but pretty standard, a picture, floorplan, rent roll information, etc. And these materials were distributed to all outside co-brokers as well. According to Peter Hauspurg, Chairman of Eastern Consolidated who rode the frenzy as a dealmaker in the height of the 1980s boom, “an ‘Exclusive Sales Agent’ sign on a building in Manhattan was the kiss of death, as no one wanted a property that had been dragged through the public spotlight.”

But New York City's real estate sales brokerage industry changed dramatically in the 1990s. When the real estate market crashed in the early 1990s, banks took over ownership as numerous owners defaulted on loans. So many buildings went into foreclosure that the banks were forced to become players in the property sales business, and they brought their national disposition programs into New York and the sales brokerage community had no choice but to adapt. Once banks had to take over the foreclosed buildings, they held a beauty contest, selected an exclusive sale agent, and subjected virtually all property sales to the wide-scale public marketing process similar to their national model for selling buildings, but extremely distasteful to a large portion of the insular crowd of owners and developers that make up the New York City market. As a result, the business model changed and approximately half of all property sales in New York in the 1990s through 2007 were handled as public sales. Exclusives

were granted on these properties for sale, and offering memorandums weighing more than a pound were introduced for the first time in nearly 400 years of Manhattan deal-making. The 1990s also saw the appearance on the scene of the widely detested Confidentiality Agreement, which never existed before the 1990s and in retrospect, appears to be the work of the banks' law firms. This document in particular then spread like a contagion throughout the New York City legal community.

Brokers still fought for the rights to sell buildings but they faced the scrutiny of the rest of the industry in how they handled their listings. This trend continued throughout the 1990s and early 2000s, but just recently, with the extraordinary upheaval in the sales and credit markets, deal making in New York has again gone back almost entirely behind closed doors as the high-leverage, fast-money crowd has virtually disappeared and the veteran players with deep pockets of equity have returned to dominate the property sales markets again.

These veteran long-time New York City investors -- Persians, Chinese, the Orthodox Community and others from the Middle East and some Europeans -- have made a big return into buying property again over the last six months and their preferred way of doing business is the old-fashioned way: through private deals. Hauspurg says, "We completely halted our public auctions several months ago as the investor profile has changed and we got clear signals that it was time to go back behind the closed door and negotiate in private, which is exactly how we have been cutting our deals in recent months. Equity is king now, and our brokers are identifying exactly who those players are and re-engaging them privately."

A good recent example of this return to the back room is the transactions involving the Macklowe properties. Despite the glare of publicity surrounding the debacle, relatively few people were granted access to the information and allowed a seat at the negotiating table, and those who did make it were people with well-established reputations as Manhattan deal closers. Outsiders and first-timers were essentially barred from participating. And in the end, the quintessential New York insider, Mort Zuckerman, closed the deal on the GM building and, not only that, put up 60% of the equity himself.

As a result, far more deals are now being made on a private basis and handled through experienced brokers. Investors sought for these properties are those that are financially prepared with as much as 50% of the purchase price in equity to buy and the ability to finish their due diligence concurrently with contract negotiations which are then quickly secured with a large, non-refundable deposit. While this is not the norm anywhere else in the U.S. except New York City, it does serve to rapidly expedite the process of trading property, which both local sellers and buyers seem to prefer. With the credit market squeezing so many would-be

investors and jeopardizing the closing of deals, more and more sales will likely be procured in this manner.

In one recent deal illustrating the return to the “private setting”, Hauspurg and Eastern Vice Chairman, Brian Ezratty arranged a quiet, behind the scenes, sale of the 160,000-square-foot Chelsea office building at 641 Avenue of the Americas on behalf of the Durst Organization and partner Zuberry Associates. A limited group of potential purchasers was contacted consisting of investors known to be willing to pay top dollar for a high-quality Sixth Avenue office building in the hot Chelsea market. Within days, a deal for \$85 million was signed with Jeff Goldberger, a long-time, well-respected Manhattan investor.

The Durst Organization almost always prefers dealing in this quiet, private manner. Eastern Consolidated has closed some major off-market transactions for them including the assemblage of the 1 million-square-foot tower at 1177 Avenue of the Americas, the long-term ground lease on the square block bound by West 57th to West 58th and 11th to 12th Avenues on which the Durst Organization is now completing a development, and Hauspurg’s recent deal for the Dursts to buy the last parcels that completed the assemblage for the new Bank of America Tower at One Bryant Park. Virtually all of these happened behind closed doors and with the knowledge of only a handful of industry insiders.

In another notable off-market transaction, Eastern Principals Eric Anton and Ron Solarz approached the estate owning 50% of the 1.25 million-square-foot St. John’s Terminal Building in Lower Manhattan and quietly made a deal to sell their half of the iconic property for \$206 million in cash to a highly-respected local group of buyers. Similarly, Anton and Solarz approached the owners of the 324-unit newly renovated apartment building at 240 East 27th Street on behalf of one specific purchaser. Though told initially that the building was not for sale, a deal was finally made for \$210 million in cash in a sale that also never saw the light of day.

What is the outlook going forward? “Even more private deals are likely” says Hauspurg. “Especially since an increasing number of deals involve someone booking a loss, which is a situation everyone considers best kept behind closed doors.” Stay tuned...

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Founded in 1981, Eastern Consolidated is one of the country's preeminent full-service real estate investment services firms, combining an unrivaled expertise in the greater New York marketplace with a worldwide roster of institutional and private investor clients. Over the years, it has been responsible for the acquisition, disposition and finance of all types of properties, including office and apartment buildings, lofts, factories, hotels, shopping centers, commercial and residential development sites, taxpayers, parking garages and lots, retail condominiums and air rights transfers. Visit us at www.easternconsolidated.com.