

Malkin's Mission

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

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 the 34th Street Partnership, Inc., and a founder and Director of the Fashion Center Business Improvement District. He is Co-Chairman of the Emeriti Council 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 The original and preeminent real estate syndicator in the United States, Laurence A. Wien, the firm's Co-Founder, with Peter L. Malkin, assembled a portfolio of properties (malkinproperties.com), including the Empire State Building, many of which were consolidated in 2013 into the Empire State Realty Trust, a public company with shares listed on the New York Stock Exchange and led today by Tony Malkin, the son of Peter L. Malkin.

Where does the New York real estate market stand today, and are you surprised by the amount of development that has occurred?

We are continuing to see strong rental activity in the greater New York area buildings owned by Empire State Realty Trust. Fortunately, we recently concluded a large retail lease to Target at 112 West 34th Street, and we have several multi-floor deals pending at our Manhattan buildings.

The statistics indicate a slight increase in vacancy percentage in Midtown, but that relates largely to space being given up by firms that are moving from central Midtown to Midtown West.

In the near term, my sense is that leasing activity will continue to be satisfactory for well-located office buildings. On the other hand, the pricing on purchases of major commercial buildings has hit a

peak and is receding, though not quite as sharply as pricing on luxury condominium apartment units.

Going into the boroughs, once security and crime reduction were achieved city-wide, all of the areas in the boroughs with good mass transportation became very attractive. That is reflected in the increase in activity and pricing.

Not only is Brooklyn hot residentially and commercially, but redevelopment is also happening in Queens, the Bronx, and Harlem.

What is the history of Empire State Realty Trust?

Empire State Realty Trust had its initial public offering in October 2013 with the consolidation of 23 separate partnerships.

Since then, its key focus has been on improving and re-renting existing space in the buildings that had been leased to smaller tenants and that had not been recently improved.

We have been following a policy of vacating smaller tenants and creating enhanced full floor offerings, and this has been done successfully in all of our buildings.

We only rent to businesses that are profitable. We have found that tech companies that start out in Midtown South and lower, when they reach a certain maturity, become interested in us and we happily accept them.

Empire State Realty Trust has achieved what it set out to do when it went public, and brand is crucial to us. Ours has a very strong acceptance with the public and with the brokerage community. The brokers and their clients know that we deliver what we say we will, and that we work cooperatively with the brokers.

Is it true that you have proven that existing buildings with a long history can be run in a way that competes with new development?

That's true, and because of the history of our ownership and the very conservative leverage of the lowest debt to market ratio of any commercial REIT, after we enhanced our buildings we have attracted major tenants with very competitive rental rates that allow substantial rent increases.

You are a founding chairman of the Grand Central Partnership. Will you discuss the important role the organization plays?

I am a proud founder of the Grand Central Partnership, the 34th Street Partnership, and the Fashion Center Partnership, which started in 1989 through 1991.

They have an enormously positive impact on Midtown, as the Bryant Park Partnership does. The whole center of Midtown has been tremendously improved with better security, streetscaping, and sanitation, all supplementing what is provided by the city.

When I started these, working with Dan Biederman and, initially, with Mayor Koch, one of the key elements was a commitment Mayor Koch gave and that has been honored by subsequent mayors: when the BIDs with the support of building owners through special assessments supplement the services provided by the city, the city will not reduce the services in the BIDs it provides throughout the city.

The result has been that the center of Midtown is cleaner and safer than the Upper East Side and luxury areas of the West Side, some of which have now instituted the business improvement districts concept we pioneered.

Do you worry that the diversity that makes New York so special will be lost because of the lack of affordable housing?

The new construction that received any zoning benefit or special treatment has included affordable housing as part of the development. When we let private investment take this lead, it is a great thing for New York City. The entire community benefits from new development.

So-called gentrification is not negative. As areas gentrify, the areas surrounding them become better. It's terribly important for New York City to provide not only subsidized housing but the housing required for millennials and the working people in the city who drive the economy.

Is it real estate that really drives a city like New York, and is the impact that real estate makes well understood?

There is no question that real estate development is a major factor in employment and tax revenue in New York City. Much of this development is largely due to the zoning changes that were put through during the Bloomberg era.

The great legacies of Mayor Bloomberg are the commercial and residential development of Midtown West and the Roosevelt Island science and technology development sponsored by Cornell University and the Israeli University. Roosevelt Island will bring in the brightest young people who want to pursue careers in the latest technologies, as already evidenced by the arrival of the New York Google headquarters and technology firms such as LinkedIn that are now major tenants of the Empire State Building. ●