NY CITY

A Track Record of Quality

An Interview with Miki Naftali,
President and Chief Executive Officer, El-Ad Group

Miki Naftali

EDITORS' NOTE *Miki Naftali is CEO and President of both El-Ad Properties and the El-Ad Group. Naftali also serves as the Chairman of the Board of Elad Canada, Inc., a public company traded on the Tel Aviv Stock Exchange, and is Chairman of the Board of Delek Global Real Estate. Naftali holds a degree in engineering from the University of Southern California.*

COMPANY BRIEF *El-Ad Group (www.eladgroup.com) is a leading global real estate company with a portfolio valued at more than several billion dollars, representing outstanding residential, commercial, and mixed-use properties. El-Ad Group is comprised of El-Ad Properties, El-Ad National, Elad Canada, Inc., El-Ad Los Angeles, El-Ad Las Vegas, and El-Ad Singapore. El-Ad Group owns, develops, and operates properties in North America and Asia. Its portfolio includes more than 20,000 multifamily residential units in Canada and the United States, as well as commercial and retail properties and such signature developments as The Plaza in New York.*

Over the past 24 months, were you surprised at how deep the economic crisis was, and where are we today in terms of market stabilization?

I was surprised. I knew that the market was overheated and that prices would go down, but I don't think anyone predicted the extent of the meltdown. Since I felt that the market was going in the wrong direction, from 2006 on, I didn't buy any substantial real estate in New York. Prior to that, I had been considered, if not the most aggressive, then certainly one of the most aggressive developers in the market competing for prime properties. It's not that I didn't want to buy; it simply didn't make sense to do so. We all experienced the worst recession in our careers.

However, we're starting to see some flickers of light in New York City, and I'm somewhat optimistic, but it's going to be a long recovery. Bank lending is, of course, at the heart of the process, and we're beginning to see a little more activity this year compared to last year – but nothing compared to three or four years ago.

Following your acquisition of The Plaza, has its development progressed the way you had hoped?

We created a luxurious mixed-use development with three components: 181 private residences, a 252-key hotel, and the shops at The Plaza. The hotel and shops have excellent restaurants.

The private residences sold out. When I underwrote The Plaza deal, I was expecting on average to get $2,500 per square foot. I never imagined that I would achieve anything close to $7,000 per square foot. But while we had a great market and it was very successful, I knew this was a once-in-a-lifetime opportunity. Those that paid $7,000 per square foot may not be able to get that today, but I am confident they will be able to command that and more in the future. They own a piece of an iconic, defining and enduring New York and international landmark.

While we generated more revenue than we had initially anticipated, we also paid much more to the contractors, sub-contractors, and designers. Construction was booming and costs only went up.

When we opened the hotel, however, we faced the meltdown. The first year and a half, we didn't do as well as we expected. But we created a great product and worked very hard to bring back the celebrities and families. We opened a 2,000-square-foot Eloise boutique and an Eloise suite, and now the suite is booked for many months. So we built on the Eloise tradition. In the past two quarters, we outperformed our competition in every measure, such as occupancy and ADR.

Do you foresee development opportunities going forward, and where will future development take place?

In New York, for example, we own 250 West Street, and that landmark quality building presents a very good opportunity to develop a substantial project in Tribeca, which remains one of the most desirable areas of the city. That positive sense is also reflected in the overall resurgence of lower Manhattan. The market is improving and we can move forward optimistically with our planned luxury renovation and condominium conversion

While the U.S. market may be dominant, we have a very big operation in real estate in Canada. For example, we have over 4,240 units in different phases of development in Toronto and Montreal. The Canadian market and economy were surprisingly strong in 2009 and 2010, and we continued to develop and promote condominium projects.

In 2009 and the first quarter of 2010, we sold over 700 units in Canada without reducing prices. We actually increased prices by around 3 percent. I couldn't have sold 20 units in the U.S. in 2009 without dropping prices to a ridiculous level.

We are also bullish on the multifamily market. We own more than 20,000 apartments – about half in Canada (between Toronto and Montreal) and the remainder in nine states in the U.S. We are continuing to buy multifamily complexes, taking advantage of low interest rates.

So we welcome the continuing potential outside the U.S., and at the same time, energetically look for new opportunities here.

Is there an effective understanding in the market of the size and scope of El-Ad Group, and are you focused on building the brand recognition for El-Ad?

Our focus is more on specific property branding. For example, our lead brand is The Plaza. Our expansion plans were put on hold due to the economy, but we foresee opportunities to expand the brand in the next few years.

The strength of the El-Ad reputation promotes and protects all our real estate properties. There is no signature, so-called El-Ad building. Our overall reputation is important to us and to residential buyers, particularly in this market. They want to know who is behind a development and to be assured there is a track record of quality.

In the height of the market, many new developers entered the market and then disappeared just as quickly. Buyers want stability from companies and corporations. They want dependable organizations that deliver on their promises, not simply in the good days, but also in the most challenging of times.

As you grow The Plaza brand, will it be through mixed-use properties, and is mixed-use critical going forward?

I truly believe in the mixed-use program. It is the surest way to create a sustainable luxury property that maintains the highest standards on both the private residential and hotel sides. One reinforces the other. We work many more hours and are willing to pay more today for services than either our parents or grandparents. We need to meet that uncompromising demand.

So the fact that people can buy into a residence and also have a wide range of top-quality hotel services on demand is a huge benefit of pivotal value to a successful high-end luxury development.

Not every location can support the third component, the retail component. But an elegant hotel and luxury private residences to me are essential and defining for The Plaza brand. ●