New York's Resiliency

An Interview with
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EDITORS' NOTE *In addition to his ownership of and responsibilities at Swig Equities and Helmsley-Spear, Kent Swig is an owner and Co-Chairman of Terra Holdings, LLC, a company that owns and operates several real estate service firms, including Brown Harris Stevens; Halstead Property Company; and Vanderbilt Holdings. Swig is also a principal in The Swig Company, a family-owned real estate and hotel company based in San Francisco and New York. Swig earned a degree in Chinese history from Brown University and attended UC Hastings College of the Law (San Francisco).*


Kent M. Swig

COMPANY BRIEF *New York-based Swig Equities (www.swigequities.com) is a real estate development, investment, and management firm that purchases and develops prime residential and commercial buildings, operating companies, and securities.*

Has the New York market recovered from the Great Recession and where does the market stand today?

Yes, New York has recovered. New York is extraordinarily resilient and that has to do with the personality of New York and the basic market demographics.

During this Great Recession, New York City lost approximately 140,000 jobs. Yet, this was the fewest number of jobs lost during any post-World War II recession. The recent New York job loss was against the backdrop of America's 8.3 million job loss.

It has taken about 18 months to come out of these post-World War II recessions and what has happened to the marketplace during these times is that we've gained back almost everything that we lost and more – each time.

What was crippling to New York in this Great Recession was that about 80 percent of those working in New York State lost at least 10 percent of their income, which froze all expenditures.

But, because people still had their jobs, even though they lost much of their income, when things started to come back, the market recovered quickly. Unlike in previous recessions where people had to gain employment again before spending money on items like apartments, this time, because most people retained their jobs, they were able to return with their purchasing power quickly. So the lag period from downturn to recovery was shortened.

The comeback has been strong and one could say that since the beginning of this year, the residential real estate market is one of the most active in the history of New York City.

Why do you think New York City is so resilient?

What creates the resiliency of New York City's residential market is that the relationship between supply and demand is unique among the world's cities because supply is virtually an irrelevant factor. Land is so scarce in New York City and delivery of new product takes so long to produce that one could not physically add enough supply in the marketplace to significantly impact price.

From the 1950s to the mid-1970s, New York City was building approximately 55,000 apartment units, temporary certificates of occupancy (TCOs), each year, which included rentals, condos, and co-ops.

The 1970s downturn was so crushing that it changed the dynamics of New York forever: we lost over 768,000 jobs and over 1.1 million people moved out of New York City. By 1994, we added just 5,200 units – a mere 10 percent of what was being added annually.

We rose to the euphoria of 2006 when we added 26,000 units (TCOs) that year, which was half of what New York City was adding annually before the 1970s. In 2011, we added just 4,800 units.

There is scarcity of land and most of it has buildings on it so one has to empty those buildings in order to put new ones up – that process, from acquisition to completion of a new building, takes anywhere from 30 to 36 months. So the ability to add product into this marketplace is very difficult.

Also, 92 percent of every home sold in New York City is used by the person that bought the home; conversely, only 8 percent of the market is an investor market, whereas in Miami's South Beach, for instance, it's a 65 percent investor market. So when the market has an issue, there is less pressure for owners in New York City to sell unless they lose their jobs; owners of homes can hold on through those lower economic points, which gives the market stability.

We have 8.3 million people living in New York City and we have 3.1 million housing units for those people. We are one of the few cities where two-thirds of our supply is in the form of rental housing and one-third is in home ownership – most of the rest of the U.S. is comprised of two-thirds home ownership and one-third rental.

There are 1.1 million housing units to own, and of those, there are approximately 650,000 units that are one- to three-family homes located throughout the five boroughs.

There are 374,000 co-ops (with all of the restrictions that apply) and there are about 135,000 condos, of which just under 90,000 are located within Manhattan. Clearly, we have a limited supply of housing. So our market is basically driven entirely by demand. When demand feels safe and has money, it goes into the market and buys; when demand feels scared, prices tend to go down and the market activity slows down.

Are you surprised that there is almost no part of New York today that isn't a coveted place to live? Can supply ever impact price?

There are basically no bad neighborhoods.

As I said, it's almost impossible in New York for supply to impact pricing but there is one exception to that: if there is an artificial change that can create artificial stimuli (such as a rezoning) to make new supply. And Brooklyn is an example of that.

The Brooklyn waterfront was an industrial area rezoned to residential. The people within the rezoned area owned their land for a lower cost than everyone else in the residential market so they could undercut the market when creating new supply as a result of the rezoning. Ironically, what saved our long-term residential value was the Great Recession because it knocked out the opportunity to develop all of the newly rezoned portions of Brooklyn all at once; now, new supply will be added in the normal course of business. Without the Great Recession, we would have had a flood of apartments in Brooklyn that could have driven the price down for everybody.

Do you reflect on setbacks?

Absolutely, and hopefully I learn from those setbacks. I tend to be very calm during periods of stress in order to work through the issues and then review how and why I got into these bad periods. I work on self-reflection and ask myself why I made or failed to make certain business decisions and I learn from that process. It doesn't mean that I don't feel stress; of course I do. But one can get overwhelmed and lose focus if one doesn't remain calm, so I tend to systematically work at solving the issues. As a leader, calmness, steadfastness, and determination make a big difference in leading the way through tough times. ●

