Discipline and Platform

An Interview with
Robert A. Knakal, Chairman, Massey Knakal Realty Services


Robert A. Knakal

EDITORS' NOTE *In 1981, Robert Knakal was hired by Coldwell Banker Commercial as a market research intern. He returned the following summer as Co-Leader of its summer market research group and in 1983, obtained his real estate salesperson license. He worked that summer at CB as an assistant to a senior broker. After graduation, he started as a full-time investment property specialist with CB's midtown Manhattan office. In 1984, Knakal collaborated with Paul J. Massey Jr. to establish a property sales group in Manhattan. They served as Co-Directors for the new specialization and in 1986, shared CB's prestigious top salesman award in New York. Knakal and Massey left the firm in November 1988 to start Massey Knakal Realty Services. In 1993, Knakal was elected President of the National Realty Conference. In 1998, he was named to* Crain's New York Business*'s 40 Under Forty/New York Rising Stars list. Since 2003, he has served on REBNY's prestigious 20-member Executive Committee. Knakal is a frequent guest on business television shows on CNBC and FOX and is also a regular lecturer at Columbia, New York University, The Wharton School, and the Institute of Real Estate Management. In 2012, he was highlighted as one of the five top building sales brokers in North America in the best-selling book,* Brokers Who Dominate. *Knakal's personal civic involvements are numerous and are highlighted by his presidency of the 156-year-old Prescott Fund for Children & Youth. He is also the President and member of the board of directors of Ice Hockey in Harlem. Knakal graduated from The Wharton School of Business at the University of Pennsylvania with a Bachelor of Science degree in Economics in 1984.*

COMPANY BRIEF *Massey Knakal (www.masseyknakal.com) specializes in the sale of investment and user properties in the New York Metropolitan area. Since 1988, their agents have closed over 4,200 transactions with a market value in excess of $15 billion.*

When you started this company in 1984, what was your vision?

In 1984, Paul (Massey, CEO) and I stumbled into a niche. We knew we only wanted to represent sellers and that we would only work on exclusive listings. That said, as two kids straight out of college, we could only get exclusive listings on small buildings. We got a few small buildings to sell, sold them, got a few more, and got some good traction. We were named directors of CB's property sales division after about a year and grew that division to about 15 people. What we found out was that our clients were more interested in what we knew about their neighborhoods and their buildings than about CB's 56 offices across the country at the time. So we left in November 1988 and after six or nine months, we talked about our vision for the company. I remember saying that if we work really hard and stick to our program, someday, we'll have 10 people working for us. So 150 people later, its gone far beyond what we could have imagined just starting out.

What is the secret to the success of the firm?

It's discipline and platform. We're the only sales brokerage company in New York that solely does seller representation and we're the only company that has a territory system – that differentiates us and creates a significant competitive advantage. We only do seller representation because it allows us to operate in a completely conflict-free environment – we are only looking to satisfy the objectives of our seller.

The territory system was implemented because we realized from the beginning that we're not in the real estate business; we're in the information business. In New York, the complexities and idiosyncrasies of each neighborhood are such that a building on one side of the street can have a very different value than a building on the other side of the street. With our agents spending all of their time in particular neighborhoods, they know all the comparable sales transactions, the new developments, the zoning changes, and the new tenants moving into an area. That information puts us in a better position to advocate for our clients in terms of convincing buyers why they should pay more for a particular asset.

How much have property values returned to what many considered to be the unsustainable rates of 2008 and 2009?

Right now, interestingly, there are good arguments for being optimistic as well as for being pessimistic. New York City will probably have about $30 billion of sales this year. So we are ahead of where we were in 2009, but still not near where we were at the peak of the market.

The pessimistic view is that you have sluggish hiring and a sluggish economy. So macroeconomically, you have conditions that are stressing the fundamentals of real estate and extraordinarily low interest rates are boosting the market.

Also, since 1993, we've had two mayors who have been pro-business and tough on crime, and have created a city in which people want to live, work, and visit. There doesn't presently appear to be a candidate for mayor in 2013 that comes with that same perspective.

In addition, the tax obligations that the commercial real estate industry is faced with are disproportionate to the tax contributions made by owner-occupied properties and there seems to be no political will to address that. Real estate taxes here are approaching 30 percent of gross revenue, which greatly exceeds by multiples what the tax obligations are anywhere else in the country. It's a problem when we have many clients who say that they have worked very hard to raise top-line revenue over the past two or three years, but their net incomes are flat because real estate taxes are going up so much and so rapidly that they're eroding all of that increase in revenue. That's not a good thing, particularly when we're operating in such a low interest rate environment. At some point, rates are going to go up. We've had a tripling of the money supply in the country and a tripling of the Fed's balance sheet – all of this printing of money has to lead to inflation at some point. When that kicks in, rates will go up; when rates go up, cap rates will go up; if cap rates rise in an environment where net income is flat, that leads to a drop in value. So you can make a very good argument that value may be lower in a couple of years.

The optimistic view is that New York is a global capital and there is an increasing flight to U.S. investments, particularly from foreign capital; New York real estate is where they want to invest because it's very sound. The desire to live, work, and visit here will keep our fundamentals strong.

To the extent that we get some rational policies from our politicians and continue to keep crime rates low and tourists coming to New York, the future of New York is extraordinarily bright. ●

