Seizing Opportunity

An Interview with Kent M. Swig,
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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 and Halstead Property. 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

How stable is the market and is this a time for opportunity?

The market is unbelievably stable, if not very strong. New York City's downturn in 2008 lasted approximately one year: prices fell on the residential side close to 25 percent and volume fell on transactions by about 50 percent. In the commercial segment, leasing hit one of its all-time lows with about 13 million square feet of transaction volume against 34 million square feet as one of the highs; and prices on the commercial side also fell.

Yet, the city lost only 136,000 jobs, which is among the least number of jobs lost during any post-World War II recession.

It was indeed a tough time but New York City rebounded faster than it ever had after a recession, and it not only regained its value and transaction volume but has now surpassed the prerecession peak.

The key demographic indicator about New York City is our population. The city had lost 1.1 million people in the 1970s due to the economic downturn resulting from losing 768,000 jobs. It took us until about 2003 to regain this population. By contrast, in this recession, we lost 136,000 jobs but we have been gaining population. This is a powerful demographic and a stabilizing factor.

We also have a very interconnected world now, and that interconnection benefits cities like New York. This means we have a very localized population that has a demand for services, housing, and offices, and we also have a national and international demand. When we overlay that on top of New York City, it reduces recovery time from recessions and encourages a quicker stabilization after a recession.

On the commercial side, with so much new development, can existing buildings still compete?

Yes, existing buildings can compete. For instance, Google's headquarters is a great old warehouse building that contains incredible infrastructure. Yet, 10 years ago, it would have been considered a relic and of no further use, but with tenants looking for alternative spaces, these types of properties have been reimagined to accommodate today's space needs.

The tenancy and mix is changing, and that is giving benefits to the older buildings that were on the verge of being pushed out of the marketplace but are certainly back in.

Is Midtown East still considered the prime part of the city?

Yes, but it's not always the most desirable anymore. Because of its proximity to Grand Central Station, Midtown East was and still is a prime location, but that's changing slightly.

The transportation network in Lower Manhattan is now second to none. There is a direct one-seat ride to Newark Liberty Airport; JFK airport is only a 55-minute ride at a cost of $7.50; and we have brand new transportation hubs with the Fulton Street Station and the PATH Station, all of which sits on top of the greatest network of infrastructure (there is more railroad track in Lower Manhattan per square foot than anyplace on earth). And there are two newly built ferry stations as well: the Staten Island Ferry Terminal and the new ferry terminal at Brookfield Place.

The issue with Midtown East is that there are no new buildings available to accommodate modern tenant needs. So, the need for a rezoning allowing for the replacement of older buildings with newer ones is critically important in order to maintain the vibrancy of this central business district area.

Are you looking to be aggressive in the market today?

On the development side, I'm a believer that there is always opportunity. I've never had a problem finding deals, but the market is priced expensively so we have to be careful.

The art of land assemblage seems to have been lost – people want "ready-made" sites upon which to build. There is an incredible amount of value still in assembling, but few people want to spend the time to do it. Developers prefer to come in, pay a premium, get the site ready to go, and design, build, and move forward.

On the other hand, it's a wonderful time to be in the residential brokerage business because that market is very strong. One of the biggest problems we have had as a brokerage firm (Brown Harris Stevens and Halstead) is a lack of inventory, which results in rising prices. As a brokerage company, our market share is close to 26 percent, so we're okay as long as the transaction volume is there. If the inventory falls too low or market demand drops away, this doesn't bode well for us.

Pricing is a separate issue. We're at a point in time when the "uber" luxury market is setting record prices. While this segment of the marketplace is a small percentage in terms of overall transaction volume, it has captured the imagination of the press and public, but is not necessarily the key indicator to watch. The bulk of the market remains local for New Yorkers and this segment is very strong.

Is there enough of a focus on affordable housing and can more be done to facilitate that?

There isn't enough being done and it's a critical issue for New York City, where housing is outrageously expensive. In order to keep a workforce in New York City who aren't just commuters, we have to build more affordable housing, and there are some relatively straightforward, quick solutions to help solve this problem.

The idea is to stimulate the private development sector to help create affordable housing because public housing can't do it all.

We need to incentivize developers to build in underutilized areas through the rezoning process. The trade-off for the rezoning is to mandate subsidized housing and/or affordable housing in return for upzoning areas to add more bulk.

We have to find the opportunities in the city to increase zoning, which doesn't cost the city anything, and will stimulate the marketplace to create affordable housing. Otherwise, everyone will build for market-rate housing and we will lose out on the diversified fabric of our population that makes New York City so great. ●