Passionate about Real Estate

An Interview with
Kent M. Swig, President, Swig Equities, LLC

EDITORS' NOTE *Kent Swig is also Owner and Co-Chairman of Terra Holdings, LLC, which is the parent company of Brown Harris Stevens, Halstead Property, and Vanderbilt Holdings. He is also Owner and President of Helmsley Spear, LLC; Owner of Falcon Pacific Construction, LLC; and Principal in the Swig Company. Swig holds a Bachelor of Arts Degree in Chinese History from Brown University. After earning his degree, Kent attended Hastings College of Law in San Francisco, where he was selected for the Law Review.*


Kent M. Swig

How do you see the real estate market today?

Currently, the commercial market has slightly slowed but it's still strong. Some suggest that it is a bit softer, but with some rents between $100 to $200 per square foot, even if it is in fact softening, it's starting from such a high value with relatively little inventory, so we still have a strong commercial market.

We are adding new inventory to the market, such as Hudson Yards, which is a whole new enterprise and neighborhood that is extraordinarily exciting. While the project has a lot of commercial office space, the bulk of the buildings are substantially pre-leased or will be before they open. This will bring overall opportunity and strength to the marketplace.

The residential for-sale side is a slightly different story, although the result may be similar. Inventory is still very low, prices are as high as they have ever been and, as a result, demand has slightly withdrawn from the market because buyers are frustrated with this lack of inventory and extraordinarily high prices.

A second aspect that is impacting the residential marketplace is occurring in the super, ultra-luxury segment. Many developers think they can build product and charge virtually any price, which is just not the case.

Looking at the 57th Street corridor in particular, two blocks north and south, river to river, there are approximately 700 currently vacant or to-be-developed units, much of which are priced over $10 million and many of them priced at over $20 million.

In 2015, there were approximately 14,000 sales transactions in Manhattan, which includes both new development as well as resales. Of those, 188 units sold for over $10 million and just 55 units sold over $20 million.

With 700 units either online or about to be completed that are priced over $10 million and many at over $20 million, Manhattan has a fairly steep supply of these super highly-priced units, potentially more than a 10-year supply.

There are approximately 2,300 billionaires in the world, so how many of them want an apartment in New York City and how many will actually buy one? Some developers are building for a marketplace that is, at best, very, very thin, and these units are just not selling quickly.

The press writes that the market must be weak because of the lack of sales, but there are just not enough buyers out there to purchase these highly priced "aspirational" units.

The inventory is building up with these super-priced units and it's actually an artificial buildup because these units are less for housing than they are for "aspiration." They do sell, but relative to the main marketplace, it's very thin and it takes a long time to find these buyers.

Residentially, we are actually in one of the strongest markets we've seen. New York City has a population that is growing from 8.6 million to an estimated 9 million over the next approximately five years, and we have a housing shortage that is causing prices to rise. At the same time, there is a perception that the market is weakening. That perception has been created by too many super-priced apartments coming to the market.

As a developer in New York City, can you put up buildings that don't have that high-priced financial structure?

While construction costs are high, it is the land costs that are priced at very expensive condo levels, and there is virtually no land available at rental pricing. At 220 Central Park South, for instance, there is a unit that will close for $200 million, so that gives confidence to other developers to attempt to get that. They might be able to get one or two sales at that level, but it is difficult to achieve that pricing for an entire building, especially when multiple buildings are out there trying to also sell at that pricing. The marketplace at that level is just too thin.

The asking prices for land should begin to be adjusted downward to be more in line with the realistic marketplace and, hopefully, more rental properties can be developed.

Is New York still primarily a renter's market?

Yes. We have roughly 3.1 million housing units; about two million of those are rental; 1.1 million are "for sale." The rest of America is about two-thirds ownership and one-third rental. Of note, we are at one of the lowest points of home ownership in America in almost 50 years, at 61 percent. Nationally, we reached almost 67 percent home ownership around 2007, and then the Global Financial Crisis occurred. The residential ownership product didn't disappear but rather it changed, from ownership to rental. Many foreclosures occurred and speculative investment found a good return on the rental side.

Figuring out how to grow the rental side of New York City's market is difficult, especially when most land is being priced at condo prices.

For our 8.6 million people in New York City, we only have approximately 140,000 condos in the marketplace, (90,000 of which are located in Manhattan), 374,000 co-ops, and about 635,000 one-to-three family homes. There is a scarcity of ownership opportunities. The problem is that the supply being added is geared to the super luxury end of the marketplace, which is razor-thin and does not address our real housing needs.

Is there even such a thing as affordable housing at this point?

The de Blasio administration has been attempting to stimulate affordable housing. What needs to be done, in my opinion, is to incentivize developers to build affordable housing, not punish them. If we don't build more affordable housing, we are at risk of losing New York's diversity, which is our strength. I think we need to provide incentives such as new zoning laws that increase the size of allowable potential projects but only if a significant percentage of affordable housing is included. I do not think that forcing affordable housing onto current projects works well because developers are essentially being punished by having to "re-price" their projects after they budgeted their costs and after they purchased their land. Instead, if the city created increased zoning in underutilized areas and linked the rezoning to producing a significant amount of affordable housing, I think this would be a fair way to stimulate and incentivize the marketplace. ●

