The State of 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 Insurance. 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. He attended Hastings College of Law in San Francisco, where he was selected for the Law Review.*

Kent M. Swig

You have always been a student of business and the real estate industry. Where do you see the economy and industry today?

The United States economy has produced over 97 consecutive months of expansion, which is the longest period of economic expansion in American history. Only 20 of those months have been during the Trump Administration, the balance are from the Obama Administration. However, expansion cannot go on forever – it will stop at some point.

The current economy did not need the massive Trump tax cut stimulus to maintain this expansion – the economy was already growing. We had a policy that seemed to be working for 100 months, so throwing fuel on the fire didn't make sense to me. We're potentially going to end up with an overheated economy which will cause the Fed to raise interest rates, which is going to slow growth, as its intended to do. We may also see a rise in inflation.

Under Trump, we have also created a massive budget deficit, which requires our government to borrow money. Since interest rates are rising, we're borrowing money at a higher cost. This is increasing the deficit even more and will make borrowing more expensive.

Real estate is impacted by higher interest rates, which makes things more expensive. Theoretically, this means prices should stabilize or drop a bit because more money is being spent on interest. This, in turn, means our cap rates have to rise because we have to cover the higher interest costs.

On the other hand, if we're heading into potentially inflationary times, hard fixed assets like real estate become more desirous. The institutions tend to shift their allocation for investment towards real estate in times that are either unstable or inflationary.

The general office market and construction related industries have been steady and there hasn't been many speculative office buildings being built, so we are presently in a stable situation.

At a micro level in New York City, the residential marketplace is going through a bit of a bumpy road. This is created more by perception than reality. The perception is that the market is overpriced, which it may be, but it's overpriced at the very top portion of the market as the very super expensive units aren't selling and asking prices are being reduced. However, "asking" prices aren't "taking" prices, so if someone is asking a foolish price and they reduce it, it doesn't mean the market is weak, even though it is perceived that way.

A second reality is that along 57th Street, a few blocks to the north and south, from river to river, there are approximately 700 units that have already been built, are under construction, or that had been built previously but still have unsold shares, many of which are asking over $10 million.

The lag comes in when developers put out product that very few buyers can afford.

Last year in Manhattan, there were a total of 14,000 residential sales transactions, and of those, there were 255 properties that sold for more than $10 million and 53 properties sold for over $20 million, which is a lot given that, up until 1996, there were only nine apartments that sold for $10 million in the history of New York City.

There is a problem for those 700 units and it is not just the pricing, but rather the lack of demand – the problem, in this case, is further compounded by the supply brought on by developers who thought that if they build better and bigger units, they would sell at any price.

When there were only 74 transactions over $20 million last year and there are now potentially 700 of these units around, that creates a problem.

It's not a weak market – it's just that this market segment's demand is razor thin. These units sell infrequently because there are only 2,500 known billionaires in the world, and, how many of those would like an apartment in New York City? Maybe enough to sustain 72 units annually, but not to sustain 700 units all at once.

On the development side, are you active in the market today?

Yes. There are opportunities to add apartments into the marketplace because overall, housing is sorely needed. The entire New York City market comprises just 140,000 condominiums for a population of 8.5 million people. We're woefully underserved in apartments.

That doesn't mean we can just add apartments at any price. We need correctly priced, well located, and properly designed apartments for the market. The lag comes in when developers put out product that very few buyers can afford.

What are your views on the future of retail?

Retail is not going away, but is merely changing its form. The public at large continues to buy retail; goods are in high demand.

Does retail need real estate? Yes, but the form of retail has changed; it no longer consists of a massive store on Madison Avenue, but instead, consists of a massive warehouse on Long Island and other areas. Retailers produce the product and ship it to buyers rather than try to sell it in a store.

Warehouses are still considered retail. They are not the retail stores we think of, but, the product and operation is still considered retail.

When there is disruption in the marketplace, which there clearly is, that creates opportunity and, in my opinion, there is opportunity for investment.

The retail stores aren't going to become hotels or apartments – they will continue to function as retail stores. What will change is the price per square foot that landlords will be able to charge for rent.

Smaller boutique stores like those found in Paris will once again be able to afford to be in New York City. This will change the quality of life for the New York City pedestrians and shoppers for the better. ●