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# REAL ESTATE WEEKLY

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## Queasy does it: Developers advice in uneasy market

Will the real estate market soon regain momentum or will the downward trend deepen? That was the question explored at a recent breakfast program presented by Professional Women in Construction (PWC): "Quality Developers Take on a Queasy Market." New York Post real estate reporter and online columnist Lois Weiss, the moderator of PWC's ongoing series of developers forums, noted: "There's a pause in the market. It's catching its breath. That's when savvy developers will jump in." The program was held at the Mechanics Institute in New York City.

The first speaker, Jamie LeFrak, managing partner, The LeFrak Organization, spoke of the boom market that had been fueled by residential construction - specifically condominiums. He allayed fears by pointing to the strength of the New York market: "The real estate economy operates cyclically. When the expectation of appreciation goes away, prices naturally drop to their clearing price which is the value of the real estate as a rented financial asset - except in New York City, where there has never (since the Great Depression) been a time when it was less expensive to buy than rent. During the last 80 years in New York, even at their lowest point, purchase prices reflected a 20% premium over rental cost."

He spoke of a current LeFrak project in Newport, NJ, now one of the largest and most successful mixed-use communities in the northeast and, said LeFrak, "one subway stop on a PATH train." He noted that Los Angeles, where the firm is also active, "has the same metrics as New York." Despite the requirement for approval of any structure over three-stories high, "The long-term value of

real estate is similar to New York."

Ofer Yardeni and his partner Joel Seiden founded Stonehenge Partners in 1994 to take advantage of the distressed New York City real estate market. The firm has since completed over \$2 billion in real estate transactions totaling over three million square feet.

Stonehenge specializes in acquiring underperforming Manhattan rent regulated (below market value) apartment buildings. It then repositions them into luxury apartment buildings to grow rents and realize their full potential value. Unlike many developers, Stonehenge doesn't seek to convert buildings into condos.

Yardeni spoke of Stonehenge's successful repositioning of the Ritz Plaza, a 479-unit rental building in Times Square acquired in 1996 that offers tenants trips, yoga parties, concerts and other amenities as part of its "vertical community" approach. "We appreciate the lifestyle of New Yorkers," he said. He noted too that in Manhattan values are driven not only by location, but often by "transportation, transportation, transportation" and proximity to the subway system.

David A. Sigman senior vice president with LCOR, agreed that "transportation is key" and noted the importance the Bergen Light Rail system is playing in a joint venture between LCOR and NJ Transit to redevelop Hoboken. He spoke



Above are the speakers for PWC's Developers Forum. Pictured (L-R) are Ofer Yardeni, Stonehenge Partners; James LeFrak, LeFrak Organization; Veronica Hackett, The Clarett Group; Lois Weiss, *New York Post*, David Sigman, LCOR; and Lenore Janis, PWC

of several LCOR projects including the Ted Weiss Federal Office Building in downtown NYC; the Charleston at 34th Street; Chelsea Stratus at 24th Street (both condos); 545 Madison which will become mixed use following a gut rehabilitation; a conversion of the Union Carbide facility in Tarrytown; and 500 rental units in White Plains.

Sigman noted a normal progression in real estate development from condos to office space to hotels, and said that a preponderance of public over private projects - and vice versa - tends to be cyclical. A down market is a good time to build so the product can be delivered in an up market. He also explained: "The New York market grows 1 to 2% a year. We're not always able to do mega-projects." Assuaging fears, he said, "The market is stronger than ever

today, and there is plenty of equity in the financing market."

Veronica Hackett, managing partner with The Clarett Group, is one of very few women in New York "who is finding partners and backers on a consistent basis." Hackett said that Clarett has completed or has under construction three million square feet worth \$2 billion since she and partner Neil C. Klarfeld founded the firm in 1999.

She spoke of entering the condo business after completing three high rise residential buildings. Luxury high rise condos will total six with the completion of SkyHouse, 200 West End Avenue and Forte this year. Hackett said that the company's staff of 49 represents an "amazingly deep talent pool." She continued, "What differentiates us are people. Our raw materials are people and sites - we bring these together."