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In spite of confirming a slowdown in deals, experts remain optimistic about NYC

By Amanda Marsh

While New York City continues to churn out significant transactions, four real estate experts headlining last week's Real Estate Principals reception confirmed it's much harder to get deals done — but not to worry about the market just yet.

Over 100 principals attended the event at Morgan Stanley's 522 Madison Avenue offices to hear from AWH Properties managing partner Chad Cooley, **Hidrock Realty CEO Abraham Hidary**, The Parkoff Organization principal Adam Parkoff, and Meridian Investment Sales senior executive managing director David Schechtman.

The panel, organized by EisnerAmper managing director Harry Dublinsky, was co-moderated by EisnerAmper partner Sol Zimmerman and LW Hospitality Advisors principal Evan Weiss.

"How do you operate in this environment, and what, if anything, are you doing to account for the correction?" Zimmerman asked.

As the market has evolved, it has clearly left distressed properties behind, replied Cooley, whose firm focuses on value-add investments.

"You have to look a lot further as to how to add value, whether through development or operations," he said, noting that while from 2012 to 2015 the firm purchased 18 hotels, it's only bought one this year.

Selling is also difficult, as there aren't clear buyers for hotel assets that are stabilized and well-performing. REITs are on the sidelines, and private equity is looking for opportunistic returns. AWH has put hotels on the market, he said, only having to take them off when they didn't sell.

Growth rates in the hospitality space have dropped from five to eight percent to two to four percent across the country, and year-to-date hotel transaction were down 43 percent from 2015.

Despite that, Cooley pointed out, the sector is on pace to transact more volume than it experienced from 2008 to 2012.

Land prices are also down, said Schechtman, who was recently tapped to co-market land and a 262,000 s/f, as-of-right development on Sutton Place and 58th Street.

Two years ago, he might have been able to get $1,000 per buildable square foot, he said, but now it's an exercise to see how much it will be worth.

He was recently able to sell a property on East 55th Street for $914 per square foot for 60,000 buildable square feet, or $54 million.

He hinted that there may be one transaction happening on 29th Street between Park and Lexington at $550 per square foot for 200,000 square feet.

Overall, there are fewer bidders on properties. “A year ago, I would have had people sending me $2,000 bottles of whiskey, telling me why they’re the right buyer,” he quipped. “But this is still Manhattan. There’s always someone buying in New York. That’s the incredible thing. We’re still tax advantageous, and the cost of living is still less than Hong Kong, London, and Paris. It’s a softer market, but a fervent market.”

Weiss then asked the panel’s owners what mode they are in, whether acquisition, disposition, or refinancing. Parkoff noted that his firm, after purchasing $500 million from 2009 through 2013, remains opportunistic. It started slowing down after that time period, “not by design, but we couldn’t find anything that made sense.”

The Class-A market, he continued, remains attractive among investors with “insanely” compressed cap rates. Buyers continue to chase yield and pay huge sums of money for these premier properties, while land “is a non-starter” and there’s been a pullback in Class B and C markets.

“We’re not jumping back into the pool full force just yet, but we are starting to look at deals a little more closely and digging for opportunities,” he said, noting that the firm hopes to see more of those opportunities come to market within six months to a year.

But Hidary cautioned that you can’t paint a brush across the entire market.

“My job would be easy if I could just say buy when the market is on the way up or sell when it’s hitting the top or on the way down,” he said. “But the truth is, it’s very asset specific. So it’s my job to find those assets in good times and in bad times.”

For instance, his firm purchased 960 Sixth Avenue in 2009, “when the market was terrible but getting worse.” Everyone told Hidrock that it had overpaid the $40 million purchase price, and the building was only worth $30 million to $35 million. But Hidrock then converted the property into a hotel, selling it for a cool $132 million. It also purchased assets in 2007 despite people saying to wait, as the market would get worse. The firm still holds some of those assets and sold two “at a tremendous profit.”

“I happen to believe, as a contrarian, that the market is a lot better than people think,” he asserted. “Capital markets are shaky, but fundamentals are strong. The capital markets will eventually stabilize, but as long as fundamentals are strong, you’ll make it through.”