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Special Advertising Section

Six Industry Notables to Receive REBNY Awards

By Joseph Dobrian

The Real Estate Board of New York (REBNY) will honor six industry leaders at its 114th Annual Banquet on Jan. 21 at the New York Hilton.



Attorney Samuel H. Lindenbaum

ATTORNEY SAMUEL H. LINDENBAUM, counsel to Kramer Levin Naftalis & Frankel LLP, will receive The Harry B. Helmsley Distinguished New Yorker Award. Mr. Lindenbaum is best known for his exhaustive knowledge of land use and zoning laws, and his handling of special permits, zoning changes, variances, landmark proceedings, air rights transfers, tax abatements and economic development incentives for many of the city's most prominent commercial and residential developments. He's also noted for his work with the expansion programs of many of the city's nonprofit institutions.

DAVID R. GREENBAUM, president of Vornado Office, the New York office division of Vornado Realty Trust, will receive The Bernard H. Mendik Lifetime Leadership in Real Estate Award. Mr. Greenbaum, who oversees all aspects of Vornado's New York City portfolio, including ground-up development,

David R. Greenbaum



redevelopment, leasing and building, is also a trustee of the executive committee of the Citizens Budget Commission, a private watchdog organization that oversees the city's and state's fiscal policies. He's on the boards of several business improvement districts in the city.



Robert A. Knakal

ROBERT A. KNAKAL, chairman and founding partner of Massey Knakal Realty, will receive The Louis Smadbeck Broker Recognition Award. Mr. Knakal, who founded his firm in 1988, has been responsible for the sale of more than 1,000 buildings, valued at a total of more than \$5.8 billion. He's well known for his ingenious transactions, most notably the assemblage of the eastern blockfront of Second Avenue between 54th and 55th Streets. He has served on

numerous REBNY committees, including ethics, arbitration, and sales brokers.

RALPH J. DIRUGGIERO, vice president of property management at Paramount Group Inc., will receive The George M. Brooker Management Executive of the Year Award. Mr. DiRuggiero began his career in the public sector, first at the Office of Management and Budget for the City of New York, and then as assistant



Ralph J. DiRuggiero



Frederick W. Peters

budget director for Essex County, N.J. He's since made his name as a manager of large office portfolios. Since joining Paramount in 2001, he has become responsible for 12 million square feet of space.

FREDERICK W. PETERS, president of Warburg Realty Partnership, will receive The Kenneth R. Gerrey Humanitarian Award. Since acquiring his company — one of Manhattan's best-known luxury residential brokerages — in 1991, Mr. Peters has nearly tripled its size. He's also a noted philanthropist, focusing on humanitarian aid and music, particularly opera and new music. Since 1980, Mr. Peters has served on the board of the Caravan Institute, a nonprofit organization dedicated to the Italian language and the promotion of culture.

TODD KORREN, senior vice president of Swig Equities, will receive The Young Real Estate Man of the Year Award (candidates must be under 50 to be eligible). Mr. Korren, who has been involved in the real estate and construction industries for more than 25 years, has negotiated more than 830 leases representing more than five million square feet, has participated in acquisitions and dispositions with a combined value of more than \$1.2 billion, and has coordinated some 300 construction projects.



Todd Korren

Steve Friedman

Eight Industry Leaders Offer Their Outlook

“While the financial crisis was most acutely felt in New York City, our market will now lead the way to stability, then to growth. In many metrics, this down cycle has not exhibited materially worse performance than prior downturns. We're now seeing decelerating job losses, rising space absorption, moderating rental rates — and this will translate to falling capitalization rates and higher demand in 2010.”

Marc Holliday, CEO of SL Green Realty Corp.

“In prior cycles it took five years to get from peak to trough; this time it took five months. But now Wall Street is hiring again. Smaller financial institutions are taking up the slack, and I see New York leading the recovery: not lagging as in previous cycles. Tenants are taking this opportunity to trade up to Class-A space.”

David Greenbaum, president of Vornado Office

“We'll see slow sales for quite some time. Banks are sitting on the properties they've taken back, waiting for the market to meet them, instead of selling to someone who'll create jobs by improving the property. Meanwhile, borrowers that are highly leveraged with term on their LIBOR-based loans are fine. Those that are leveraged and don't have term left

on their loans are in trouble.”

Darcy Stacom, vice chairman at CB Richard Ellis

“So much capital is on the sidelines now, lacking product. A lot of real estate is owned by banks or CMBS (commercial mortgage-backed securities), and as banks' balance sheets improve they'll put the product back on the market. Sometime in the latter half of 2010, we'll see the investment sales market adjust. Owners who can leave a lot of equity in the property — REITs, foreign buyers, institutions — will dominate the new ownership landscape.”

Bruce Mosler, co-chairman of Cushman & Wakefield

“If you're going to buy a home, buy it now. You may see low interest rates again, or low prices, but not both, ever again. As for commercial property, I'm bullish on the entire metropolitan area — as long as New York remains an attractive place to live and work.”

Richard LeFrak, chairman, president and CEO of LeFrak Organization

“This down cycle has been much worse than others. In other cycles, have we seen the financial system on the

verge of collapse? The lack of a functioning financial market makes any project difficult. Nobody's lending, and I don't see that changing anytime soon. We'll just have to sit and wait.”

Douglas Durst, president of The Durst Organization

“REBNY (The Real Estate Board of New York) will work with the city and state governments to create more efficient cooperation between the private and public sectors. We don't believe either government can go on spending at current levels. We want to fundamentally reform the services that government provides, and the contributions we make to city and state employees. Unless we do something about our spending habits there will be budget crisis after budget crisis.”

Steven Spinola, president of REBNY

“The supply of available properties, particularly distressed assets, remains constrained. But lenders and servicers have begun to loosen the pipeline and we expect the supply of product to begin to flow in 2010. Demand remains very strong. We've sold several properties recently to high-net-worth foreign buyers who are not primarily in the real estate business — and each of those transactions was closed without any debt.”

Robert Knakal, chairman and founding partner of Massey Knakal Realty

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Financing: The Multibillion-Dollar Question

By Joseph Dobrian

Sales and leasing velocity — which refers to how long property stays on the market — aren't the major worries facing the New York real estate market going into the new year.

The greater concern is with the billions of dollars of mortgages coming due. There are lots of questions. Will borrowers obtain refinancing on terms nearly as favorable as the initial mortgage? If they can't, can they afford a new loan while rents remain depressed and vacancies high? Will debt remain constrained, and will there be a wave of foreclosures? And how, when, and on what terms, will lenders dispose of foreclosed property?

Owners who have avoided over-leveraging, and lenders who can resist foreclosing, should survive — but casualties are inevitable.

"You can get small loans, if you're well capitalized and can put a lot of equity into a project or purchase," says Steven Spinola, president of the Real Estate Board of New York (REBNY). "Loans over \$100 million will be hard to come by. The big question now facing us is: what will happen to the refinancings of existing mortgages? Most of the loans coming due in the next three years are performing, but when the mortgage is up, will the same lender extend or refinance it, or will another lender be interested in a huge mortgage on an office building?"

"We need the financial institutions to recognize buildings that are performing," Mr. Spinola adds. "For nonperforming buildings, there's lots

of opportunity for people who have the money to acquire. Foreign investors want to be here, now that the dollar is down."

Ross Moskowitz, partner in the law firm of Strock & Strock & Lavan, says his firm is deeply involved these days in the issue of underperforming loans.

"Clients want to know how can they work out a deal on some of these loans," he explains. "In many cases, the capital stack is so complicated, and has been divided up so many times, that you don't know who still owns the debt, whom to talk to about the loans, or what everyone's rights are — and how to then proceed. The person who made the first or the largest loan doesn't necessarily have the most rights or the ability to restructure the deal."

Michael Colacino, president of Studley, a real estate services firm that specializes in tenant representation, says that for that reason, a wave of foreclosures is unlikely. Lenders may not want to carry their borrowers through the next few years, but they may have to.

"The CMBS (commercial mortgage-backed securities) market has made it very difficult to unwind the deals; thus we see very few distressed trades compared to 1993, when you saw many buildings selling at below replacement cost," Mr. Colacino says.

"It's no secret," he adds, "that many suppliers of debt are just not dealing with the problem because they don't want those properties on their books. That's why the unique story of 2009 was a lack of foreclosures and distressed property sales. But how much longer can that persist? Will the capital markets come back sufficiently to allow refinancing

on the same terms as before? You'd have to be extremely optimistic to think so."

Other observers hope that the Federal Deposit Insurance Corp. will instruct lenders to extend loans that are performing, but it's uncertain how many of those loans will survive in the long run.

"Lenders will extract conditions for extending loans," says Darcy Stacom, vice chairman of real estate services firm CB Richard Ellis, "but still,

"There's lots of opportunity for people who have the money to acquire. Foreign investors want to be here, now that the dollar is down."

these are loans they wouldn't make today, to borrowers they wouldn't choose to lend to today. Accounting rules that forced them to hold a foreclosed property on their balance sheets at market value, or sell it at market price, have been relaxed. Banks know what these properties are worth, and know that they're not at a level at which they want to sell."

However, the pain may be spread thinly enough to be bearable, suggests Richard LeFrak, chairman, president and CEO of LeFrak Organization, an owner and developer of real estate.

"The banks have been given some latitude in postponing mortgages until conditions get better and until they have enough capital on their books

to take the writedown," Mr. LeFrak says. "Add to that the fact that there are different gestation periods for different types of loans. It'll take time for all these situations to be modified, and ownership clarified."

"Meanwhile this is a great time to buy or develop for cash. Financing is still available for multifamily [properties] once the asset is rented and stabilized. Our strategy is to build it, rent it, then go get the mortgage."



GETTY IMAGES/David McMillan

Savvy Retailers and Developers Seize New Opportunities

OFFICE LEASING may or may not be heading to a slow recovery, but two other major categories of real estate — retail and hotels — have managed to get through the downturn without disaster, and are likely to remain the bright spots on New York City's horizon. The city turned out to be the most popular tourist destination in the U.S. in 2009, the first time since 1990, according to the mayor's office. As long as the dollar is weak, the city likely will attract foreign tourists who've come to shop and sightsee, plus Americans from around the country who may have postponed a foreign trip.

Retail is all about location, with certain neighborhoods gaining or losing favor every few years or so, and currently much of the buzz is focused on lower Broadway south of Houston Street

— commonly called SoHo. Peter Braus, executive vice president of Sierra Realty Corp., says that SoHo is more of a shopping destination than ever.

"For retail, Broadway in SoHo is the hottest area, period," he says. "White House Black Market, the women's boutique, recently located at 508 Broadway, paying \$500 [a month] per square foot: a very big number in the middle of a recession. People are drawn to Broadway destinations like Prada, Bloomingdale's and Topshop — and they just want to experience SoHo," Mr. Braus says.

"International retailers are in expansion mode, taking space in neighborhoods that would have been beyond their reach when rents were higher," says Faith Hope Consolo, chairwoman of the retail leasing and sales division of Prudential Douglas Elliman, New York's largest real estate services company. "The downturn created a 'shopportunity' for retailers in what had been completely a



SoHo is New York's 'hottest' retail location.

REUTERS/Brendan McDermid

landlord's market, where owners didn't take the long-term view but simply leased to whomever could pay the most. Now, they're looking for retailers with credibility and strong financials."

"Restaurants were badly hurt by the downturn," adds Lewis B. Kaye, CEO of MLBKaye International Realty. "But the vacancies have led to opportunities for new restaurateurs to go into locations where the equipment and fixtures are in place and the rent is lower than it had been. An owner with a lot of buildings can keep a store vacant until rents go higher; a smaller owner can't."

Current conditions have also created opportunities for hotel development, according to Ken Colao, president of CNY Builders, a construction and development services firm.

"We're involved in two 40-story hotels that will be completed in late 2010," he says. "Both are three-star hotels, which are the best investment when the economy shifts downward. We've been encouraging clients to build now, if they can secure the financing, because the construction industry has adapted to the market: costs are 15% to 20% off the highs. Developers with guts will seize this chance."

— Joseph Dobrian

Few of us have experienced anything quite like 2009. Yet as we begin the new year, our steadfast commitment to long-term relationships and growth prevails and we remain as grateful as ever to those who look to us for stability and leadership.

To our tenants and the New York brokerage community, we say

thank you.

Douglas Durst *Jonathan Durst*

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We especially acknowledge the following individuals and firms with whom we worked so closely and successfully in 2009:

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The good news about New York's real estate scene, going into 2010, is that the market probably has seen its worst, and that the downturn wasn't as brutal as many had feared. Leasing velocity — which measures how fast the market is moving — dropped to record lows in the first half of 2009, and investment sales stopped almost entirely. Now, with lower prices, sales and leasing are both picking up. Owners and sellers might not like the numbers at which they now have to trade, but they're trading.

Moreover, after massive layoffs in the financial services industry, new entities are starting to form, and larger companies are taking back space that they had put up for sublease, in anticipation of a rebound. Steep price drops in condominium and co-op apartments are starting to lure buyers back, as more people gain confidence that if they haven't lost their jobs by now, they can safely invest in a home.

Nobody expects 2010 to be a banner year and it will most likely take a year to regroup — with users of property slow to take more until they see how well their own businesses are doing, sellers reluctant to sell until prices head back up and buyers slow to buy because they'll want to see if the market falls farther — to prepare for more action in 2011.

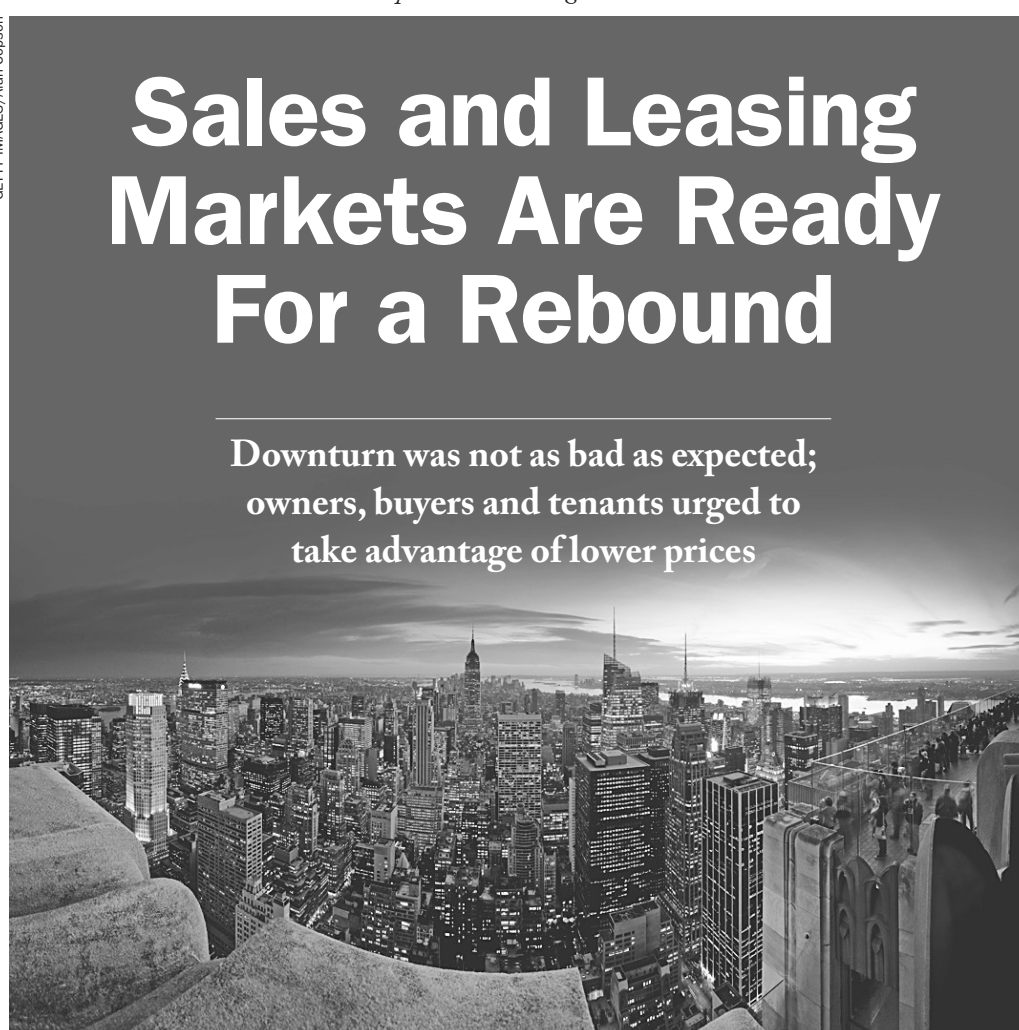
Real estate mogul Larry Silverstein, who heads Silverstein Properties, has probably the most optimistic view of any industry insider. He expects the financial services industry to stage a slow but steady comeback this year. Additionally, he says, a surprising amount of new office product could hit the market over the next decade or so.

"We're beginning to see signs of improvement," he says. "Unlike previous falloffs, this time we don't have the surplus space problem. New York City was affected by the downturn, but it didn't happen to the extent everyone had anticipated. And now we find that Goldman Sachs has taken back several hundred thousand square feet of space that they'd put on the sublease market. So has J.P. Morgan Chase, so has Morgan Stanley. [Some] 400,000 square feet or more in both cases."

Mr. Silverstein adds that the age of most of the city's office space will lead, inevitably, to a wave of development that's sure to be good for business overall. About 64% of the city's office space, he says, is more than 50 years old. Large public companies are seeking buildings certified by LEED (Leadership in Energy and Environmental Design) for their headquarters, and the costs of upgrading old buildings to today's environmental and technological standards are prohibitive.

"The effect of this demand will be positive," he predicts. "You'll also see, this year, that luxury

GETTY IMAGES/Alan Copson



Sales and Leasing Markets Are Ready For a Rebound

Downturn was not as bad as expected; owners, buyers and tenants urged to take advantage of lower prices

condos are reflecting strength again. The product that had languished on the market for months, has stopped languishing. The city is doing better, real estate-wise, than many people expected it would, and we'll see the beginning of job pickup in 2010, and continued increases of sales of co-ops and condos — given the opportunity to buy them at 30%-35% less than what was quoted a year ago, at favorable interest.

"We want to acquire in 2010, and there'll be good opportunities to do so. We're also planning some development projects that we think we can start in 2011 when construction financing becomes available again," Mr. Silverstein says.

Another group that's relying on increased availability of construction financing in 2011 is Rudin Management Co. The company hopes to have all approvals and financing in place in about a year for the mammoth, multiyear redevelopment of St. Vincent's Hospital in Greenwich Village, which president William C. Rudin says will consist of a state-of-the-art health care facility plus luxury apartments and townhouses built on the old site.

"The new St. Vincent's Hospital will be the first green medical facility in New York City and will provide an unparalleled level of service to the entire Downtown and West Side community," Mr. Rudin says. "The redevelopment of the legacy campus will preserve and reuse four of the existing buildings, and will include a residential tower on Seventh Avenue and brownstones on Eleventh street."

Mr. Rudin agrees with Mr. Silverstein that the low point of this real estate cycle has not been as bad for the city as others have.

"In the early 1990s, Lower Manhattan had a 30% vacancy rate. Today both Midtown and Downtown are under 15%. In the last two quarters of 2009, there has been a significant increase in leasing activity as tenants discover attractive opportunities," says Mr. Rudin.

Several other observers suggest that peripheral economic issues might slow the growth of commercial real estate in 2010. Uncertainty over payroll taxes and the rising cost of health insurance might prevent some employers from hiring new personnel until they can get a more accurate idea of

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GETTY IMAGES/Spencer Platt



Steep price drops in condominium and co-op apartments are starting to bring buyers back.

the bottom-line impact.

Still, 2010 is likely to be a much livelier year than its predecessor. Neil J. Goldmacher, principal at real estate services firm Newmark Knight Frank, says that 2009 can be divided neatly in two: a half-year of almost no leasing or sales activity, followed by a slight pickup, once tenants and investors perceived that rents and prices were near the bottom and decided to lock in at favorable rates.

"I'm concerned about the cost of doing business here, especially the potential tax increases, which could hamper growth," he says. "Many businesses have discovered that they can ask their work force to do more with less, and without job growth, real estate fundamentals likely won't improve. This is why you'll see tenants moving to better-quality space in 2010, but that will come at the expense of buildings of lesser quality. Moreover, a lot of buildings will go through complete financial restructurings, perhaps with the lenders taking them back, and the new owners of these troubled assets will be able to offer more favorable terms — both rent and concessions," Mr. Goldmacher says.

"This cycle is similar to that of the early 1990s, but this time there's stimulus money and low interest rates."

"This is a terrific time to be a tenant," says Bruce Mosler, co-chairman of the board at real estate services firm Cushman & Wakefield. "Net effective rents [rents after deductions for maintenance and repairs and any tenant allowances given] are down 40% to 45%, which is good in that it means more activity, more execution. I advise tenants to look for opportunities, because this is a critical moment. If you're an owner, now's the time to lock in your credit tenants [tenants who can be counted on to pay their bills] and stabilize your portfolio — and look for opportunities to acquire."

"If you're an owner who's not highly leveraged, you're facing a win-win situation. Typically, multinational businesses have made employment cuts to the point where they're now almost under-resourced, and as confidence returns they'll begin to hire — and as they hire, they'll expand."

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