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An Interview With John Maltz

The following is an interview conducted with John Maltz, President, Greiner-Maltz, in his Long Island City office on February 17, 2005.

Dear Mr. Maltz, "please call me John" John, thanks once again for setting aside this time for what I hope will be an interview our readership finds both interesting and enlightening as to the current, very exciting real estate market.

John: I appreciate the opportunity to share with you and your readers the "inside" scoop on a truly remarkable, once-in-a-lifetime real estate market.

Question: What single factor can you attribute with what we are now witnessing in the New York City real estate market?

John: Simple, Alan Greenspan's decision in 2001 to flood our economy with cheap currency. To understand the impact that this monetary policy has had on the market, one needs to look at the valuation model for real estate which is based on capitalization rates. Some of our readers may have more experience in rent multiples, but these computations are the inverse of each other. Simply stated, a property is worth some multiple of its net cash flow. For example, a 10% capitalization rate on a property throwing off $100,000.00 per annum, would result in a valuation of $1,000,000.00 for the property, or, a multiple of 10 x net income. However, capitalization rates are made up of 2 components, debt and equity. If the purchaser requires a 10% return on their cash in the deal and their mortgage financing costs 10%, then the market capitalization rates will tend to be bracketed around 10%. However, if that same buyer wants 10% return on his 25% cash down, but can obtain a mortgage at 5% interest on the balance, the cap rate would drop to approximately 6%. The

JOHN MALTZ
President, Greiner-Maltz

$1,000,000.00 property becomes a $1,660,000 property.

Question: So falling interest rates have in effect doubled the value of properties in the Brooklyn and Queens area over the past 3 years.

John: In some cases more than doubled! Let me explain the other significant component to what can only be described as a real estate feeding frenzy. In times of uncertainty, the investment market looks for safety, and safety equates to investing in hard assets. The closing of the stock market for a week in 2001, and the steep drop in share prices and liquidity for much of that year, drove investors into the real estate market. This further reduced capitalization rates through the chemistry of rising demand in a world of shrinking supply. Unlike the stock market, where a company can just issue more shares, real estate is a fixed asset and expansion of the supply is costly and time consuming.

Question: Are there any other factors which you could single out as having significant impact on the real estate market?

John: Yes, and that would be change of land use. While many economists are bemoaning the reduction of our New York City regional industrial base, the city made a calculated decision to not fight the trend by offering significant tax benefits for manufacturers, a give-a-way which may not have worked in any case, but instead, re-zoned swathes of industrial land to residential.

Question: Just a zoning change has had that large of an impact?

John: Most definitely. An industrial site of 10,000 sq. ft., in many areas, can now be developed into a 50,000 sq. ft. residential structure. At condo prices of $500.00 per sq. foot, even viable industrial companies are selling and moving out of the area.

Question: Do you see a long-term negative or positive impact for the city from the industrial to residential land use rezoning?

John: On a relative basis, only a positive. By relative, I mean that in an ideal world, certainly having a vibrant industrial base would create a healthier more balanced economy. However, New York City is unique in that instead of having shuttered factories like other areas of the country, we will have high-value residential developments which will strengthen the white collar commercial base.

Question: So, in effect, the already established trend of rural areas losing their young population to the cities is being assisted through city planning?

John: Exactly! However, I would like to add, it appears a timely confluence of both rezoning and buckets of inexpensive financing available for most any project, all wrapped up in an exciting and relatively safe urban environment. By the way, this same phenomena is repeating itself in all the major East and West coast cities.

Question: Where will it all end?

John: The seeds of a market recession generally are planted, but go unnoticed, in every expansion. This boom is no different. While a stock market bubble can implode in a matter of days, typically real estate markets take years to fully correct. A warning sign which is beginning to become more apparent are resales where the purchaser's motivation is simply to sell into further market appreciation rather than making a sound investment. However, barring any external event, real estate markets can expand for years with prices becoming ever more inflated. It is very hard to pick a top in any market.

Question: Can you point to any single transaction which you believe exemplifies what we have been discussing?

John: A sale which comes to mind is one which we recently closed in the Queens West re-development area of Long Island City. This 23,000 sq. ft. one story industrial building had been languishing on the market after its prime tenant had gone bankrupt. The out-of-town owner came to us and indicated that he was ready to sell the property for roughly $2,000,000.00: a price which, based on his industrial property experience, was at the high end of the range. After reading the market study we had prepared on the property, the asking price was revised to $6,000,000.00 based on the as-of-right residential development of a 6-8 story mid-rise structure. Our intensive 6-month marketing period resulted in a bidding war which pushed the eventual gross sales consideration to over $6,500,000.00. The total cost of the project to the developers will be at close to $20,000,000.00, with a slated sell-out at approximately $50,000,000.00. This one project will create housing for over 60 families and provide the local economy with all the benefits expected from an influx of an affluent population base.

Thanks once again for your time and a very informative interview.

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