RECENT CLIENT SUCCESS

THE KNAKAL GROUP SELLS
10 EAST 34TH STREET FOR $51.7 MILLION

The Knakal Group has arranged for the sale of the fee interest in 10 East 34th Street (aka 8-12 East 34th Street). The property, which is located on the south side of East 34th Street between Madison and Fifth Avenues in Manhattan, was sold in an all-cash transaction valued at $51,700,000.

The property spans approximately 53 feet of frontage on one of the most recognizable corridors in Manhattan. The 10-story commercial loft building consists of full-floor office units that allow for generous light and air throughout the space making them exceptionally appealing to TAMI tenants. There is one retail unit on the ground floor and nine office units above. The total rentable square footage is approximately 54,680 square feet plus an additional 2,500 square feet in the basement designed for use by the retail tenant. The sale price equates to approximately $946 per square foot.

Bob Knakal, Chairman, New York Investment Sales at Cushman & Wakefield exclusively handled this transaction with John Ciraulo and Jonathan Hageman.
Multifamily Headwinds Explained...

Most casual observers of the multifamily sector in the city would say that the biggest headwind faced by the market has been the rent freeze approved by the Rent Guidelines Board last year. This policy created a zero percent increase in rents on one-year leases in rent stabilized apartments. This was really only a minor headwind relative to the policy headwinds that began many years ago. There have been three major court decisions that have created tremendous uncertainty in this sector which have created operating hurdles for owners and property managers and have left attorneys who advise property owners at a loss. Many of these attorneys, who spend all of their time practicing within this area of specialty, can only give advice based upon the risk tolerance that owners profess to have.

In the Stuyvesant Town / Peter Cooper Village case, commonly referred to as “The Roberts Decision”, the court determined that apartments in buildings receiving J-51 benefits cannot be removed from rent regulation. This decision threw a curveball to property owners as for many, many years, it was generally accepted that units could be removed from regulation in these properties. This was the opinion given to owners by the Department of Housing and Community Renewal (DHCR) which is the entity market participants have always looked to for the interpretation of the rules of the game. As the sheriff of rent regulation in New York, DHCR opinion letters were relied upon by owner and attorneys alike in order to figure out what the correct operating procedures were. For many years, DHCR instructed owners that they could deregulate units pursuant to high-rent or high-income guidelines in buildings receiving J-51 benefits.

Further, the department of Housing Preservation and Development (HPD), another of the agencies that help interpret the rules of the game, had for those same many, many years, ratified the decisions made by DHCR. HPD did this by reducing the J-51 benefit by the percentage of units removed from regulation. Therefore, we had a long history of two of the most respected and influential agencies active in the city's housing market saying that deregulation in J-51 properties was okay, only to be reversed by one court decision.

Unfortunately, while the court concluded that deregulation in J-51 buildings was illegal, they did not decide what owners should do with units that become vacant in these buildings. To this day, there is no clarity on this issue.

More recently, the Altman Decision threw another curveball to owners by changing another long-held operating procedure. Since high-rent deregulation was introduced, owners would take the last legal rent being paid by a regulated tenant and would add to that rent level, the vacancy bonus and Individual Apartment Improvement (IAI) supplement (1/40th of qualifying improvement costs incurred in the renovation of the unit). If this new legal rent exceeded the high-rent threshold, the unit was removed from regulation and could be rented on a free market basis. The judge in the Altman case concluded that the unit only becomes deregulated if the last occupant of the unit was paying a regulated rent above the high-rent threshold. This decision reversed years of standard operation procedure for property owners.

And most recently, The Altschuler Decision, determined that even if a deregulate apartment has been occupied by a series of free-market tenants, the unit may, under certain circumstances, be deregulated at a reduced rent level with potentially treble damage overcharges incurred by the present owner.

Each of these landmark decisions have created uncertainty and headwinds for property owners trying to create value in their properties.

Future headwinds are likely to be created by the desire of the present administration to “preserve” affordable units. The mayor has pledged to create or preserve 200,000 units of affordable housing. The expiration of the 421a program will create a huge air-bubble in the supply pipeline of new units. Therefore, preservation will have to be the focus of elected officials for the foreseeable future. Skewing rent laws even further in favor of tenants is likely to occur to achieve this objective. It would not be surprising to see, among many other things, the rent freeze extended for a period of years.

The strength of the multifamily market is remarkable given the policy headwinds discussed above. We are fortunate that so many people want to live and work in New York City. This demand exerts upward pressure on rents and leaves apartment vacancy at historically miniscule levels. Will there be a straw that eventually breaks the market’s back? Only time will tell...

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