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NYC’s $100 million-plus investment sales market heats up

After lackluster start to year, big-ticket building sales and listings on rise

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By Adam Pincus

Manhattan’s priciest on-the-market properties

ADDRESS	EST. SALE PRICE	SELLER	LISTING BROKERAGE	DESCRIPTION
11 Madison Ave.	$1.5 billion	CIM Group, Sapir Organization	CBRE Group	*2.3 million-square-foot office building*
825 Eighth Ave. (Worldwide Plaza)	$1.2 billion	George Comfort & Sons and RCG Longview	Eastdil Secured	*750,000-square-foot office building*
550 Madison Ave.	$700 million	Sony Corporation of America	Brokers pending	*825,000-square-foot office building*
75 Rockefeller Plaza	$360 million	Mohamed Al Fayed	Cushman & Wakefield	*600,000-square-foot office building*
525 Lexington Ave. (Marriott East Side)	$350 million	Morgan Stanley's Prime Property Fund	Eastdil Secured	*406,261-square-foot hotel (646 rooms)*
120 West 45th St.	$270 million	SL Green Realty	CBRE Group	*575,000-square-foot office building*
1 West End Ave.	$200 million	Carlyle Group, Extell Development Company	Holliday Fenoglio Fowler	*850,000-square-foot development site*
550 Washington St.	$200 million	Eugene Grant	N/A	*1 million-square-foot industrial building*
438 11th Ave.	$200 million	Edward Imperatore	CBRE Group	*800,000 to 1 million-square-foot dev. site*
346 Broadway, 49–51 Chambers St., 22 Reade St.	$187 million	City of New York	N/A	*750,000-square-foot office portfolio*
344 West 72nd St.	$150 million	Grandchildren of Lenore Dean	Eastern Consolidated	*199,502-square-foot apartment building*

Source: News reports and CoStar Group data. Includes both individual buildings and portfolios in Manhattan, which are currently being marketed for sale.

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After a lackluster start to the year, the fall selling season for the priciest Manhattan buildings and development sites — those with price tags of $100 million and up — has kicked into high gear with a rush of properties recently hitting the market.

11 Madison Avenue

Those listings, which total more than $5 billion, include two buildings — 11 Madison Avenue and 825 Eighth Avenue, also known as Worldwide Plaza — that are expected to fetch more than $1 billion each.

If either sells before Dec. 31, it would easily break the record for the most expensive sale of the year.

The aggregate value of Manhattan’s $100 million-plus, on-the-market properties bodes well for the higher-end investment sales market here, brokers said.

“People have been testing the waters and watching what is happening and realizing it is a strong market. There are a lot of aggressive buyers out there looking to shop in the market, so it becomes a good time to sell,” said David Ash, principal with Manhattan-based Prince Realty Advisors, who brokered several high-profile deals this year.

This, of course, is in contrast to the first eight months of 2012, which saw just $5.4 billion in sales for deals valued at $100 million or more, compared with $9.7 billion during the same period in 2011, data from Real Capital Analytics shows.

Brokers offered several reasons why sellers were returning to the market now, but all of them pointed to the record pricing, especially among asset types like retail condominiums and condo prices for projects like Extell Development’s One57 at 157 West 57th Street.

Christopher Schlank, managing partner at investment firm Savanna, also noted that huge buyer demand is spurring sellers to bring product to the market.

“Interest rates [are low] and there is a lot of money coming from Europe, a lot of scared money,” he said. “So it’s a currency hedge, an economic hedge and a place to put their money.”

Others pointed to the capital gains tax rate — which could jump from 15 percent to as high as 23.8 percent next year — as another reason to sell before the end of 2012.

“All of a sudden we had a burst of activity that started in August. People waking up — a little bit late in some cases — that we might have a nearly nine-point increase in capital gains,” said Peter Hauspurg, CEO of commercial firm Eastern Consolidated.

Others say they do not make decisions about when to buy and sell based on the current or anticipated tax rate. Richard Litton — president of Norfolk, Va.-based investment firm Harbor Group International — said because any given sale has different tax implications for different investors, depending on the participant’s corporate structure and other factors, his firm focuses on asset values rather than tax implications when deciding to sell. (In May, Harbor sold 4 New York Plaza for $270 million just about two years after buying it for $107 million.)

Meanwhile, in contrast to the fourth quarter of last year — when the majority of the most expensive transactions were partial interest sales or restructurings to resolve troubled situations — this year owners are shopping around full ownership sales. For example, 11 Madison Avenue in Midtown South (which CIM Group and Sapir Organization are marketing for $1.5 billion), and Worldwide Plaza in Midtown (which George Comfort & Sons is offering for $1.2 billion) are both entire property sales.

But investment sales professionals say office properties are just one of the asset classes expecting high volume in the $100 million-plus Manhattan market.

“Right now the activity is spread around,” Hauspurg said. “The hotel market has been pretty quiet, but multi-family, retail and development sites [have been active].”

“Pricing is at an all-time high, eclipsing 2007 in many cases,” he added.

Read on for a look at some of the buyers and sellers in the market and why they’re making their move now.

From left to right: Harbor Group International’s Richard Litton, Blackstone Group CEO Stephen Schwarzman, CIM Group cofounder Richard Ressler and George Comfort & Sons CEO Peter Duncan.

Realizing returns

This fall, many of the big sellers are investors who bought during the market’s low point and are now looking to cash out.

Harbor, CIM, Sapir and George Comfort & Sons fall into the category.

Sapir bought the 2.2 million-square-foot 11 Madison in 2003 for $675 million, and then in December 2010, CIM stepped in to buy a 49 percent interest valued at $470 million in the building, rendering the value at around $940 million. If CBRE Group’s Darcy Stacom and William Shanahan — who are marketing the property — hit their target of $1.5 billion, CIM would achieve a 60 percent gross profit in less than two years.

Meanwhile, George Comfort & Sons also bought their building — Worldwide Plaza — on the cheap (at least relatively speaking) in 2009 for $590 million. If Eastdil Secured brokers Doug Harmon and Adam Spies sell it for its $1.2 billion ask, the owners will make a stunning 100 percent return on their investment in just three years.

Entertainment giant Sony is also exploring the sale of its U.S. headquarters at 550 Madison Avenue, which it leased from AT&T in 1992, and later purchased for a reported $236 million in 2002. According to the New York Post, Sony is looking to hire brokers to market the property, which could sell for between $700 million and $1 billion.

Harbor Group’s Litton said his firm’s investment plan at 4 New York Plaza was to sell at a profit in five years or more. “It happened a lot sooner than that,” he said.

Institutional owners such as Blackstone and Lehman Brothers are also in the market to sell, according to news reports.

A spokesperson for Blackstone would not identify any particular assets the private equity firm is looking to sell.

“As is the nature of our business, we must sell assets in order to realize returns for our investors; however, we are under no specific time frame, or under any pressure to sell,” said Heather Lucania, a Blackstone spokesperson.

Blackstone owns an interest in 10 properties in Manhattan, including 1095 Sixth Avenue and 1114 Sixth Avenue, which face Bryant Park, data from CoStar Group shows. Lehman, meanwhile, owns the office building 237 Park Avenue, and the On the Avenue Hotel at 2178 Broadway, which it needs to sell to pay off creditors as it liquidates assets following its 2008 bankruptcy.

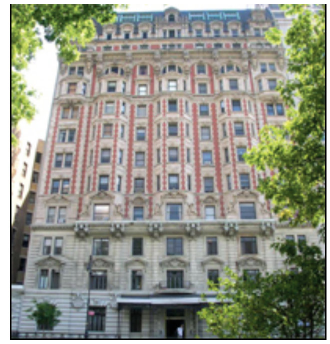
But it is not just the large institutions that are selling. Family owners are cashing in after decades as they see prices soar.

The grandchildren of Lenore Dean — who purchased the 139-unit Upper West Side rental building the Chatsworth, at 344 West 72nd Street, 67 years ago — are currently seeking $150 million for the property.

Eastern Consolidated investment broker David Schechtman, who, along with broker Lipa Lieberman and Hauspurg, is marketing the residential building, said the family was selling after seeing a steady increase in unsolicited offers from buyers.

And on the West Side, the Imperatore family is looking to sell a site with between 800,000 and 1 million square feet of development potential that it’s owned for decades, through CBRE.

According to the most recent report from Massey Knakal Realty Services, Manhattan development land is selling for an average price of $310 per buildable foot, a price which has remained relatively stable for several years. The Imperatore site — located in an area undergoing a new surge of development, with residential towers planned from builders such as TF Cornerstone and Silverstein Properties — has no official asking price. But sources say it could be worth more than $200 million.



The Chatsworth at 344 West 72nd Street

Yet, not all properties on the market will sell for a profit.

Despite the surge in prices, there are still buildings where values remain below peak levels. For example, SL Green Realty listed 120 West 45th Street last month, through CBRE. The real estate investment trust bought the 400,000-square-foot Midtown office building — known as Tower 45 — in 2007 for $285 million. But it's weighed down with a 6.1 percent mortgage interest rate — far above today's rates — which can't be paid down early. SL Green is expecting to fetch about $270 million for the property, according to published reports.

From left: Entertainment giant Sony is also exploring the sale of its U.S. headquarters at 550 Madison Avenue; Lehman Brothers needs to sell properties, including the On the Avenue Hotel at 2178 Broadway, to pay off creditors; 825 Eighth Avenue, also known as Worldwide Plaza.

While the big players like SL Green generally publicize properties they bring to market, there are also always a number of buildings being marketed quietly, which don't make it into the public eye until a contract is signed. TRD looked at the nine closed full-property sales valued at more than $100 million in 2011's fourth quarter, and found that five of the listings were announced publicly and four were kept under wraps. Brokers say there are likely even more $100 million-plus properties being marketed today given that the market is so active.

For example, Aaron Jungreis, president of the multi-family focused brokerage Rosewood Realty Group, said he was working on two $100 million-plus deals that would likely close this year that were not reported when they came on the market. He would not identify the properties.

Still, the market remains divided into properties in high demand and the rest.

"It is somewhat of a two-tiered market," said Jon Epstein, executive vice president at commercial firm Avison Young. "The quality product is selling at a high price, but the mediocre [assets] are not being sold at the prices [sellers] want."

In other instances, sellers were overly optimistic about pricing and pulled buildings from the market. For example, Aby Rosen was marketing a stake in the famed Seagram Building at 375 Park Avenue for $2,000 per square foot last year, but no one bought it, and the property appears to be off the market now.

Buyers get busy

By all accounts, there is no shortage of buyers ready to pick up the slew of $100 million-plus properties on the market.

A list published by the city's Economic Development Corporation — which is handling the sale of three prewar office buildings, which some estimate could fetch more than $187 million — shows a vibrant market of buyers. In May, representatives from more than 40 firms came to look at 346 Broadway, 49–51 Chambers Street and 22 Reade Street, including Vornado Realty Trust, Kushner Companies, TF Cornerstone and Harbor Group International, the city's list showed.

Insiders said other major players, such as Rockrose and SL Green, are also hunting for properties. One source suggested that SL Green would be a likely contender for 11 Madison.

SL Green did not respond to a request for comment.

Some brokers are keeping an eye on owners who have recently sold properties, since those sellers may be looking to purchase other properties with the excess cash. In many cases, those investors need to buy another property quickly to defer taxes through a so-called 1031 exchange, or just want to keep investing in the city.

Recent sellers — who now may be on the hunt to buy more buildings with their fresh capital — include Savanna, William Macklowe Company and SL Green.

And there are also always surprise purchases by outsiders. For example, the Spanish Riu Hotels & Resorts paid Glenwood Management $111 million in July for a Times Square–area development site, its first acquisition in New York City.

The big test

Market analysts say this quarter will test the frequently heard refrain brokers used this year to explain the slow activity: There was just nothing to buy. Now, there is plenty of product. But will the buyers step up?

Some investors said the high prices are turning them off.

Harbor Group's Litton said his firm thinks prices are too steep and is reluctant to do more than make mezzanine or preferred equity investments in New York City.

The local office market is at a "price point that just doesn't provide as much upside as we like to see," Litton said.

Yet, even as some will demur, each buyer has their own assumptions of future values, expected returns and risk levels.

"There are certain investors that are willing to accept lower returns for lower risk," Litton said, noting a building might provide 6 or 8 percent returns per year, which is too low for Harbor Group, but "for some investors that can be an attractive yield."

And there are entire areas that are opening up for investors, such as the vigorous sector of retail condos.

Craig Nassi, owner of BCN Development, which owns 315 Park Avenue South, anticipates more high-priced retail condos will come on the market on Fifth and Madison avenues, and in Soho and other areas.

The property at "666 [Fifth Avenue] set the stage for what great retail is worth," he said, referring to Vornado Realty Trust's deal to pay $707 million to buy one of two retail condos at the building. (The deal is expected to close this quarter.)

"Any owner of anything on prime Fifth Avenue saw that gigantic sale and said, 'Maybe it's time for me to sell,'" Nassi said.