REAL ESTATE OUTLOOK: Are We Entering A New Economic Cycle?

An executive seminar held at The University Club in New York City June 8, 2006.
Sponsored by LePatner & Associates LLP, Berdon LLP, Rampart Group and Sterling National Bank

Full transcript (edited for grammar)

left to right: Rosemary Scanlon, Stuart Match Suna, Barry LePatner, and John Powers.

BARRY LEPATNER:

Good morning, and thank you to all our sponsors who've been so wonderful in the preparation and assistance of gathering such a great crowd. And thanks also to all of you for joining us here to explore some interesting issues with our panel. First let me remind you that as we've done in past years, we have placed in front of you a survey, which asks you to apply your own areas of expertise and your own experiences in the real estate and construction world. Please fill them out. We will announce some of the survey results at the end of this morning and also we will publish the survey findings widely to all of you through e-mails and through all our publications. So we do appreciate you filling them out. We'll have them collected at 9 a.m.

This morning, we will explore with an esteemed panel of experts where the real estate market is headed over the coming months and years. For most of you here today, the past few years have been busy and largely profitable as a result of low inflation, historically low interest rates and a steady flow of domestic and foreign moneys available for investment. As we have seen, real estate is not only a driving factor in many areas of our economy but has become an important investment for corporations, institutions and individuals alike.

But if there is a dark side to the growth and importance of the real estate world, it is the seeming vagaries of the way in which our nation constructs its schools, hospitals, office towers and condos. This is because the latest statistics reveal that 40 to 60 percent of all project dollars paid by an owner are wasted due to inefficiencies in the way the construction industry operates. Make no mistake about it: by January 2006 construction was a $1.16 trillion-a-year-industry in the United States, representing 5 percent of our nation's GDP. A one-time improvement in construction productivity of just 10 percent would boost America's GDP by $116 billion.

According to the latest census information, by the year 2030 today's US population will increase by over 70 million people. A recent Brookings Institution report revealed that an additional 58 percent of our nation's current total building stock, which is some 427 billion square feet, will be needed to be built after the year 2000. This population explosion that I'm referring to will also result in 100 billion square feet of new homes with an even greater additional increase in commercial and industrial square footage over the next 20 years.

Other studies predict that America is poised to embark on a $25 trillion construction binge that will sweep every sector of our nation. Local school districts will expand, health and hospital needs will grow with our aging baby boomer population and new offices, retail and entertainment complexes will abound as never before. Yet the construction industry defies explanation when compared with every other field of business. Unlike every other industry in the United States, there are no nationwide construction companies operating in all 50 states. Only several hundred have over 1,000 employees and almost all general contractors or construction managers sub out 80 to 90 percent of the actual work and materials needed for a project to companies who are themselves Mom-and-Pop in nature.

This means that few contractors, regardless of their size, are willing to accept risk, have the profits or capital to invest in new technology or are able to put money into new research and development to improve their company's productivity. As a result, one study shows that only about 32 percent of the total time spent at the typical construction site involves actual, direct work. The other 68 percent is wasted on employee transportation delays, travel within the job site, late starts, early quits, personnel breaks and sundry other delays. Even if these statistics were exaggerated and they are not the stakes for the national economy as well as for your own project budgets are simply too high to ignore.

My comments are not intended to cast aspersions upon the construction industry or the many talented, hard-working individuals who make it happen every day in our nation. Everyone in the industry is simply responding to a set of parameters that have remained largely unchanged in our nation for over 150 years and in truth, probably for thousands of years dating back to when the pyramids were built.

By identifying the steps needed to bring the construction industry into the 21st century, we will bring benefits not only to those who pay for construction from corporate owners to taxpayers, from real estate developers to homeowners but to the valuable members of an industry that time has left behind. I look forward in the months ahead to speaking about these issues to all of you and to the benefits that will accrue to each sector of the real estate and construction world. Thank you.

Let me introduce our first speaker this morning, Rosemary Scanlon, whom I have known for many years. Some of you who have attended my seminars over the past two decades will recall that she was a wonderful and valued speaker years ago at the Waldorf-Astoria Starlight Room when, at that time, she was the chief economist for the Port Authority of New York and New Jersey. She's also a former visiting research fellow at the London School of Economics, has had responsibility as New York State deputy controller with regard to monitoring the New York City budget and economy. She has recently undertaken advisory reviews of Seoul, Korea and Melbourne, Australia's economic planning and infrastructure strategies and has authored *Building for Growth: A Development Strategy for New York City's Long-Term Prosperity*. Please join me in giving a warm welcome to Rosemary Scanlon.

ROSEMARY SCANLON:

Thank you, Barry, for that nice introduction. I've only got a few minutes, and what I want to do is talk a little bit about some of the top developments in the US economy in the context of where I see some of the major issues with the New York economy. So bear with me and we'll go through these slides.

Let me start first with the GDP. The first quarter GDP at the national level is very strong. As you can see, it was up about 5-1/2 percent or so. So it represents a big increase over the last year and the last quarter of 2005. This is corporate profits. These have been very strong notice the upward trajectory of corporate profits, which means a lot. It means a lot for the City of New York because such items as public relations and advertising and travel and whatnot tend to be very directly linked to this trend of corporate profits.

But here's some troubling data. This is the chart on job growth in the United States and the new number, which just came out last Friday, is this very low bar, and it indicates that there was a growth rate of only 75,000 in the United States. Now, this is a preliminary number, it will be revised in another month when the June numbers come out. But I find it disturbing as a national trend that the two prior months' numbers were also revised downward. But keep in mind that 75,000 until I get to the New York charts.

This chart shows real consumption spending in the United States. Now, one of the things I didn't bring a chart on this that's been going on through this recovery in the United States is that much of the boost on the GDP has come from the refinancing in the real estate market of homes rather than from jobs and certainly not from real wage growth. So the fact that real consumption now is starting to decline I take as a direct result of the change in the refinancing market and the amount of money that's been moved out into disposable income. So this is a very disturbing trend and it goes against everything else, except for jobs.

Another disturbing trend is the real savings rate of the working population of the United States household it's pretty grim. The big dip in the fall 2005 comes from the impact of Hurricane Katrina. But overall, we just don't save as a nation, which also means that whatever we've been spending in the last three years is a bit of a sham. It's coming from taking equity out of our housing market, as opposed to coming from jobs and from real incomes. It's something that I think we really need to worry about at the national level.

Now, I'm starting a few charts here on New York City. The first point I want to make is the fact that our population has been growing. You remember the dark days after 9/11 when we really worried about people moving out of New York City, but that has not happened. We've gained at least 160,000 people since the census was taken in 2000 through 2004. And City Planning really believes that the population has continued to increase. It looks like we have a baby boom when you see all the strollers on the street, but I didn't see that showing up in the vital statistics.

Anyway, I apologize for the fact that this chart looks a little bit busy, but it includes 2005 growth as well as the most recent one. This charts the New York City economy against the national economy in terms of job growth on a month-to-month over-the-year basis. You can see where New York City was still in recovery while the United States was stronger in 2005. But look what's been happening in 2006, starting from January to December, the rate of growth in New York City now is equal to what's going on in the US and actually surpassed it in March. These are actual growth rates over the last few months with the latest being April. We don't have May yet for New York but we'll have that at the end of the month.

What this indicates is that NYC had 44,000 total job growth in April, and if the United States only had 75,000 new jobs in May and if NYC has kept up with the same approximate rate it achieved in April, it means that half the jobs in the United States are here in the City of New York which is an amazing statistic, if that's true.

A couple of things haven't changed about New York. This great chart shows the year 2000, which was the recent peak in our economy. When people say, “well, you look at New York and you just try to distinguish the economy on the basis of what is the percentage share of jobs per industry.” Here I show the securities industry otherwise known as Wall Street. Security brokers and investment bankers account for 5 percent of the jobs in New York City, but if that's all you looked at you would be totally misled by what really goes on in this city because about 22 percent of all the incomes earned, wages and salaries earned in New York City, come from this one segment of the industry.

What tends to happen in New York City you have to use the terminology that we economists use, the "income multiplier"– is that so much is driven by what happens with Wall Street bonuses. These bonuses are in billions of dollars. 1999 and 2000 had been the prior peak. Then you can see what happened from 2000 to 2002, we lost about $10 billion out of the city's economy just in terms of the bonus structure on Wall Street. Then we see the buildup through 2005 where now the estimates are that we're back over about $22 billion. So again, one has to think of this money moving through the city's housing market, moving through the restaurants, the travel business, et cetera.

Another point to remember about what goes on in the city and metropolitan area is where the incomes are earned. This chart takes wages and salaries and bonuses by place of work, place of earnings, and looks at it by county in the region this is Manhattan. So no matter what we do and think in terms of the way the whole metropolitan regional economy is structured, Manhattan is the nuclear center driving this.

One of the big drivers besides Wall Street is the whole leisure and hospitality industry, and its back in business. You must all know personally how strong hotel occupancy and the airline traffic is. The Port Authority's airport statistics are back up and over their previous peaks. I'm doing a study on the arts at the moment, measuring its economic importance. When it comes out, it's going to be shown to be as big an industry as we've noted in the past. This is also a driving, very strong sector in the region.

Another point which is derived from our strength in wages and income growth plus the business strength in the economy, is the fact that the city's fiscal situation is so strong. The mayor is ending the year with at least a $3.5 billion surplus and he's been able to put some of it aside for the future. Our rate on our bonds is up, probably the highest ever. So everything's growing at the moment.

Now a couple of things about the housing market. I want to make a couple of points about New York. This chart only shows through 2004, but 2005 kept growing and we built maybe 28,000-30,000 units in 2005. But what really matters in thinking and understanding the New York City housing market is to look back and '95, '96 and '97 when we built 5,000 units, 7,000 units for a city that was gaining 700,000 new population.

This was not a unique situation in '95. For all the years I've been tracking the housing market, we never built enough. So when we have housing prices going up in New York City, it is still primarily a function of demand and supply lack of supply, a lot of demand. When Wall Street's having a good year and the bonuses are high, the demand is even higher. So this is a really key understanding to make and look at our city compared to some other cities. We just never build as much as, say, even Phoenix, which is one-third the size.

This chart shows the United States Housing price index, which everybody says is coming down but there's not much that shows up in this chart yet. This is New York. This is by quarter and the violet line on the bottom is the one on median housing prices, so they're at least as strong or a little bit stronger than the second quarter a year ago. So everything seems to be holding up so far in terms of prices in the New York market.

But I wanted to tell you something else that's really different about New York. We hear at the national level that housing ownership has gone up to about 70 percent, which meant that all throughout this recovery, other cities and areas around the country where home ownership rates were so high, people took that equity out of their homes which drove a lot of their economy.

In New York City, only 30 percent of the households are owner-occupied. This hasn't changed much even though we've had a much greater building supply of condominiums. This is the New York metropolitan area, which has a couple of suburban counties, so it's up a little bit higher than the city at about 32 percent. But there's no place in the country like us with this particular pattern, which means that whatever's been going on in our economic recovery has not been driven by the home equity surge of incomes. It was very different, very different than the rest of the country.

Now, again these are some national numbers which seem to indicate that new home sales are going down, but then they bounced back up recently. The darker line are housing starts, so it does look as if the national housing market itself is starting to weaken a little bit, but I know we're all watching that these days to see what happens.

So let me see if I can't wrap up. We have some conflicting signals on the US economy. The jobs picture is astonishingly weak, real consumption seems to be going down and yet some of the other indicators like corporate profits are high. Whether that means that we'll have more business investment to take up the slack of housing investment remains to be seen.

And we've got big things to worry about, which I'm not going to dwell on. It's early in the day, we have to get through it! I can wake up any morning and start worrying about the deficits both of them, the international and the local. The war of course and the prospects for the cost of this war, which Joseph Stiglitz says can well hit $1.3 trillion before it's all over. Oil prices. Trading partners: we tend to still be blaming China, that's why I put China down in the imaginary list of trading issues. But the real issue is that we're back to the petrodollar situation of the late '80s or early '80s.

But let me just wind up by saying on the New York economy, it does seem to me that the possibility exists that we are for the next year, the rest of this year and next year at least, on our own trajectory here in New York whether we look at our job creation, income growth, or the fact that we've got such a pent-up housing demand. While our housing situation may show a little froth at the top of the market, I think it's really different from what's going on now in other metropolitan areas. We have substantial construction projects, big construction projects underway and in the planning. I haven't seen anything like that in 30 years of my work here in New York.

We have a very strong situation with the hospitality, art and cultural sector. The financial industry of course is key, so we all watch that every day. And if there are any other worries that I have at the moment, I worry about the restrictions on immigration because so much of New York's population growth in the '90s was really due to all of it, as a matter of fact immigration. And we worry perhaps about stretching capacity in that, I mean, local costs could start to go up on construction and that we could have a lot of setbacks in some of our big planning.

So let me leave it at that. It's both hands, as you can see, for this economist, going busily at work. But I think for New York, it's still a very optimistic situation. Thank you.

BARRY:

Thank you, Rosemary. I think a lot of people came to hear a note of optimism and we'll see whether our two other speakers can carry that forward.

John Powers is chairman of the New York Tri-State Region of C.B. Richard Ellis, the world's largest commercial services real estate firm, with $2.9 billion revenue in 2005. I could go on and read about John's stories and biographies and honorariums, but I'll tell you one quick story from personal experience.

In 1990, I attended one of the sensational private breakfasts that then Edward S. Gordon, one of the predecessor firms of CBRichard Ellis, gave, and it was a fascinating time in New York because no construction was going on at the time. We were at the bottom of a recessionary pit and there wasn't an architect or an engineer with a project and there were no cranes in our city and it looked very bleak. John got up and he gave a presentation that I'll never forget. He said our city currently has 7 million square feet of surplus office space and then went on to show in a series of charts through some demographics and population growths and financial information, that we will not fill those 7 million square feet and then the chart went out to 1997.

And I, a very knowledgeable, sophisticated, person, turned to someone next to me and said “It will never take that long to fill up that space in this city.” Flash forward seven years. I'm sitting at a breakfast of ESG in whatever incarnation they are at that moment and sure enough, John Powers gets up and there is this presentation. John says “This year for the first time in seven years, we will finally see the last unallocated block of surplus space of that 7 million square feet being occupied.” At which point I said he's got to be the smartest person in the real estate industry, knowing the commercial market. I've followed him ever since and he has been hugely, hugely right on in every aspect involving the commercial markets in this city.

So without ado, I'm very, very pleased to introduce for you and for all of the things you will learn from him, John Powers.

JOHN POWERS:

You get lucky in forecasting sometimes. I'm primarily a real estate player, but I fall into this role from time to time. So I'm going to talk about the office market primarily, even though I know you're all interested in many aspects of the real estate industry. But I'm focusing on the office market.

Things are moving very fast and very well in the New York real estate market. Let's look at sales transactions first. During each of the previous two strong years, many thought that the extremely high sales volume was an anomaly. The very low interest rates with a steep yield curve, bargain prices, weak investment, an expanding economy, poor investment alternatives, portfolio reallocations they were all thought to drive the market. But the investment sales volume has managed to sustain itself for yet another year with high volume and record prices on both A and especially B space and a distribution of buyers across many different product types.

The principal difference relative to the last few years has been the oil-related buyers from the Middle East. There's no surprise there with oil prices at $70 a barrel. And also more REIT activity. Multi-family has been very active, but may have peaked and we saw significant momentum in office and especially hotel. Negative leverage has been the norm. Land prices have spiked on the residential run up. Office and hotel development users cannot compete with zoning overlaps, a first for New York. The amount of money in the market chasing deals and significant profit-taking opportunities after three strong years will create high volume and record prices again this year, notwithstanding the residential peak, the higher interest rates and the flat yield curve.

Turning to the office leasing market, we've had a declining vacancy rate in Manhattan for the last 12 months and significant increases in the asking and taking deals. In Midtown, we did not match the velocity that was achieved in 2004 a record for Midtown but certainly had velocity in 2005 at 15 million square feet, which has continued at that level during the first quarter of this year. But where is the next inflection point? When will the market turn again? We've had three years of expansion since the availability rate topped out and asking rents began moving slowly upward. The glut of sublease space has been worked out of the market and the disparity between the sublease and the direct rents has pretty much disappeared.

How will rents move upward as the market continues to tighten? It is instructive to look at the last two times we were spiraling upward with a strong economy and declining availability and review what happened then. In 1980, prices doubled on Park Avenue in an 18-month period as strong demand confronted a building hiatus. That was ameliorated over time by a slowdown in the economy and aggressive building which took place in the mid-eighties, much of which was encouraged by municipal incentives on the West Side.

That cycle ended with tremendous overbuilding as the prime problem, but was worsened by a recession in the early '90s. In the late '90s, the economy was on a torrid pace, fueled by the dot-com boom and lofty expectations of Wall Street and corporate users, which created astronomical headcount projections. Prices grew slowly over time and then spiked on phantom demand in late 1999 and 2000. In that cycle, we traded the overbuilding of the '80s for corporate overbuying. It took us four years to work off more than 10 million square feet that were recycled into the sublease market. The recession in 2001 as well as the attacks on the World Trade Center hastened the end of the boom and brought us into three years of correction. Overbuilding, overbuying the market will not forget these recent errors.

Today, the financial service industry so important to New York has achieved record profits. The layoffs and contractions that took place from 2000 to 2003 are long over. Last year, the bonus pool was higher than it was in 2000 and it was split by fewer people. Clearly, there have been concerns about hiring and taking down more space than is needed. Most of these firms are our clients and we know many are now as tight for space as they have ever been. We see significantly more leasing and demand from the big players in the financial service industry in New York. That's going to put pressure on the market because these firms are in high-margin businesses and when they need space, they take it down at any price.

We've seen a meaningful contraction in large blocks over the last few years, especially last year. In one year we've eliminated almost 2 million square feet and moved the total number of blocks down from 28 to 19, of which four have leases out and several more are seeing significant activity. That number will drop to single digits by early next year. We do have new space coming on the market but what you see here is all of it and for a long time.

Verizon is giving up a million square feet after it moves out of all but 300,000. There are 700,000 square feet remaining at the new New York Times building, the hottest building in Midtown today. The old New York Times building will return 680,000 square feet to the market. 350,000 square feet is all that is left at the Bank of America headquarters after the bank took another 500,000 square feet earlier this year. This will add on balance about 350,000 square feet of large blocks quarterly to the market through the middle of 2008. Large tenants will pay a premium in this environment, whereas in a soft market they've enjoyed a quality-quantity discount. Smaller users, especially users with flexibility, will be under significantly less pricing pressure.

The next place we'll see tightening is in the quality. Let's focus on two aspects of quality. One is the views and prestige that higher floors bring in a building. Leasing activity relative to product size has been strong on the middle floors, weak on the lower and weakest on the highest floors. The reason for the weakness at the top is the lower availability rate at that level. Much of that space is already gone. The availability rate is lower at floors 20 and above and pricing has increased faster on these higher floors. My New York rule of thumb used to be 40 cents a floor. You move up 10 floors, it costs you another $4 in rent. Today, that is $5 for a 10-floor jump and look for it to be $6 by the end of next year or even higher in the best buildings.

We have segmented the Midtown market into two different categories, taking the best 40 percent and plotted their availability rate against the others. As you can see, since 2003 these top buildings availability rates have dropped significantly and will soon be 4 percent less than the other buildings in Midtown. There is a flight to quality and the top buildings will garner increasingly higher rents during the balance of this cycle.

The key questions are how fast is pricing moving up and how long can it be sustained. Let's look at one very significant constraint on the market. One impacting both landlords and tenants is the growth of real estate taxes. Although the tax rate actually dropped and is back to where it was in 2004, the assessments have been driven very, very high. With rollovers and higher rents, those assessments will continue to increase. You can see that the net is a 7.8 percent increase in real estate taxes in an inflationary environment of about a percent and a half over a five-year timeframe. These are very big numbers.

New York has always benefited from a policy of subsidizing the residential market, getting people to live here and putting that tax more heavily on the commercial side. It seems that the limits of that policy are now being tested. We have just seen Verizon drop a million square feet. Those workers are now commuting to the Jersey waterfront. Time has also dropped 300,000 square feet as they have moved people out of New York. While New York has survived and thrived on a long history of moveouts, technology today facilitates the smoother and quicker execution of employment options for space users. Many decisions will be made on the margin. For example, let's build or expand this new product in Houston or Hong Kong rather than in New York.

Looking longer-term, large corporations face another major concern in Midtown. We've seen a long history of successful corporations moving to a new headquarters every 20 years or so. We've had growth, but certainly no oversupply during the last cycle when the market growth created the functionality to allow a roster of blue-chip companies to keep and expand their New York-based workforce. Midtown could always provide a new corporate home, albeit at a premium, with a compromise in neighborhood but rarely transportation. That is no longer the case.

All the buildings for the 2000s are now known, but where are the sites for the 2010s? There are none, or very few sites available in Midtown today, depending upon criteria. The only viable alternative is the development of the West Side below Times Square. The city was not successful in using the Jets stadium as a catalyst to promote transportation expansion and development on the West Side. In the Penn Plaza area, there is potential for the Garden to move west, which would instantly create the ability to transform Penn Plaza in as dramatic a way as Times Square was transformed in the last decade.

Downtown finally reached an inflection point last year, where availabilities were dropping and pricing has slowly started moving up. This is three years after Midtown, but that should not have surprised anyone. A big positive for Downtown is the tremendous number of residential conversions that attacks two problems simultaneously. It eliminates some of the oldest office buildings from the stock and advances Downtown's quest to become a true 24/7 environment. Great strides have been made during the last couple of years on the live-work-play environment and more are coming.

Transportation: another positive sign is that the impressive Santiago Calatrava-designed transportation hub is well underway. It will provide Downtown with both dramatically enhanced functionality and an appropriate architectural gateway. Leasing activity has been somewhat soft, but there are a large number of real deals on today -- deals that will absorb over a million square feet by year-end. Although there have been many more large blocks Downtown than Midtown, these blocks are being taken up.

Over the past two years, we've witnessed a 20 percent reduction in big blocks. The historically high discount rate to Midtown, combined with municipal events and special Trade Center incentives, has enticed a few tenants, notably AON, to move downtown. There is talk of others like Dow Jones following suit. As Midtown continues to tighten, these moves will become more common, especially for large users. The flight to quality will significantly drive down the unusually high post-'80 construction availability rate.

Indeed, 7 World Trade will follow a number of successful new buildings finished without a tenant, the 100 percent-leased Times Square Tower being the most recent. In fact, the original 7 was itself on this list 20 years ago. 7 will be mostly leased by this time next year. New York tenants and their advisors understand quality and value and they are drawn to it.

I think we are all very disappointed with the problems that have slowed the rebuilding of the Trade Center site. Nonetheless, unlike Midtown we will eventually have significant development sites there which are already being redesigned by world-renowned architects. Thank you very much.

BARRY:

Please pass your surveys in towards the center where the tables are, we'll have them collected and see if we can tabulate them before we conclude this morning.

While we're doing that, I'm going to introduce our next presenter. Stuart Match Suna is the co-owner and president of Silvercup Studios, which is New York's largest full-service film and commercial production center. Over a two-decade period, Stuart and his brother, Alan Suna, have transformed a former bakery into a 400,000-square foot production complex comprising 18 studios. Silvercup is home to hundreds of commercials and motion pictures and hit television shows, including “The Sopranos” and “Hope and Faith.”

Following 9/11, he led a grassroots campaign to commit advertisers and filmmakers to New York City production. Stuart by training is also an architect and involved in housing and retail development and serves on several boards focused on economic and cultural development projects. This past February, Silvercup announced the launch of Silvercup West, a $1-billion, 2-million square foot television and film production and mixed-use complex on the Long Island City waterfront designed by world-renowned architect Lord Richard Rogers. Please give a warm welcome to Stuart Match Suna.

STUART MATCH SUNA:

Thank you, Barry. And to John, I want to thank you for reinforcing some of my opening remarks.

As you look up here, we want to broaden your vision that New York City has five boroughs. And over here is what we are calling “Midtown East,” just over the East River. It'll be like London. New York City is at a real tipping point, that it is really looking at an opportunity to expand beyond just Manhattan. So I'm really glad to hear from Rosemary that we’ve got the housing demand, and from John, you're saying that there's a pent-up demand for office space but the West Side of Manhattan and Lower Manhattan are not going to be enough.

So that really fits into our whole vision, because Midtown East-Queens West has really taken off. Rockrose, Avalon and everybody's building over there. Citibank is building and breaking ground for its next 1.4 million square feet, so there are a lot of things going on in this whole Central Business District (CBD). Silvercup West is that area by the Queensboro Bridge. This area is what we'll call the Golden Triangle, the future of Long Island City. If you saw the *New York* magazine cover story last week called "Tomorrowland," it features not only many of the great projects of Manhattan but some of the great projects in Brooklyn and Queens. The *New York Times* has also been talking about a lot of it.

So you have 20 million square feet of development in the CBD and then you also have another 7-1/2 million square feet of development along the Queens waterfront. One of the things we're working on with Richard Rogers is a total vision of life, work and leisure, which I'll talk about later. This slide shows the history of the site. In that large picture, you can see the Queensboro Bridge is under construction over a hundred years ago in 1906. This was a factory building, which is where much of the terra cotta was fabricated for many of the grand landmark buildings of New York City. It used to be transported by boat. The little building on the right is a New York City landmark, which is still there today, and we're going to be restoring it.

This is what the site looks like today. You can see that little green giant back there, Citicorp Tower. And then that's our six-acre site. In the background you see the Silvercup sign, which is six blocks back from the river and the temporary generators which are going to be relocated at the end of this year. To the right is a Department of Sanitation salt pile. So what we have here currently is six acres with only one job on it other than temporary jobs like moving salt. So New York City has some really great opportunities to expand.

This is an axonometric view of the project. To the left side is a 600,000-square foot office building that we're planning for media- and entertainment-related companies to connect into the studios. Media and entertainment companies very often like to locate on more edgy parts of the City, like the West Side where there is light and air and the kind of excitement you'll see in our project. There will also be a 100,000-square foot cultural facility. We're looking to talk with some world-class facilities to lease space.

In the middle is the 350,000 square feet of new studio space. The tax credit programs of New York City and New York State are working so well now that we'll be able to fill those studios because New York is really booming with that business. The entertainment-related industry is doing great and it's generated I think, according to the governor's numbers, 16,000 new jobs and $135 million worth of new tax revenue above the tax credits they've given out. To the right are the two residential towers, a million square feet. We believe that right now, New York continues to have a great residential market and the waterfront is a great place to have it. According to our architect, Richard Rogers, from London, we see this project as a great opportunity to combine live, work and leisure to really making it a 24/7 community. It'll also include retail, as you'll see in some of the renderings later on along the esplanade.

This section through the building, shows the residential towers on the right, which will have spectacular views and hopefully it commands better than 50 cents a foot as you go up floor-to-floor on the residential side! The office building is on the left next to the bridge. Here is a section through the studios. Overall, there are not only 2,000 construction jobs to build this 2-1/2-million square foot project, but over 4,000 permanent jobs for the New York City economy, which we're very excited about. It'll be designed using sustainable building principles including the use of green roofs.

In the middle above the studios, there'll be outdoor landscaped space and a catering hall for over a thousand people. Now you won't have to go all the way to Terrace on the Park in Flushing to come to Queens for many events you can book them here next to the bridge. We've included parking below grade. We have parking for the necessary uses on the site, which will be 1,400 parking spaces accessed off Vernon Boulevard. Then you can see the tree-lined street to the right, which is where the salt pile is now. All the delivery trucks will come into the building and we'll have significant loading docks not only servicing the commercial buildings and the residential, but also directly delivering everything into the studio. So we'll have a significant reduction in parking and truck problems in the area.

This is an east-west section. Lord Rogers' office building design pulled some of the history from the bridge into his design of this building through its diagonal lines and movement. Because of the need for space, on top of the parking we have eight studios: four studios above four studios. You mentioned "The Sopranos," but also we're proud to be the past home for six years of "Sex and the City," another great show for New York. What's interesting is that the mayor has really done a wonderful job with his film office, run by Katherine Oliver, realizing that the film and television industry is one of the greatest commercials for New York's tourism. Because people from all over the world watch shows that are about New York, they want to come see New York. Certainly "Sex and the City" did a lot of that.

This is a plan of the studios. I mentioned the tax credit program earlier. Just to give you an idea, normally New York used to get one, maybe two pilots a year and almost no new TV shows other than "Law & Order" or the two cable shows that I mentioned, "Sex and the City" and "Sopranos." Two years ago, we had eight pilots in New York. This year I think we had over 10 pilots and for this coming season. Silvercup got four new network TV shows you'll see on NBC and ABC, which is rather exciting. That's why we need more studio space immediately. Unfortunately, we can't move fast enough. Right now we're in the public review process.

This is what happens when you get the Department of Sanitation to move its salt pile off the river and you build a public street. These renderings are done by our landscape architect, Laurie Olin, of the Olin Partnership. This is the public access and view corridor parallel to the bridge. It's really a beautiful landmark bridge and it would be exciting to walk under it along a tree-lined promenade. On the left will be the cultural space. There'll be broad public escalators. Initially Lord Rogers had this idea like he used at the Pompidou Centre in Paris, where the escalators would be outside. But because of weather and view corridor concerns, we brought them inside. Even from inside the building, as you come up the escalators you'll be able to experience this landmark bridge from views that you've never had before.

This is a view of the esplanade. The esplanade will go from 40 to 90 feet wide. Again, of the six-acre site, over two acres will be publicly accessible for the public to walk around. There'll be public entrances, retail on all four sides of the building. So we really want to activate the building and the street life here. Again, there'll be people working in the office building or living there or working inside these studios. One of the things they really crave for is daylight and they'll be able to come out and really enjoy that all year-round.

This is the view from Queensbridge Park. Very often as you know, large structures and overpasses like bridges and rails are urban barriers between two neighborhoods. The bridge is one of the barriers. We wanted to not only take advantage of this beautiful park, but we also want to engage the new community with the existing one. One thing that we're working on, my friend, Pastor Mitchell Taylor who is here in the room, is working very well with the East River Development Alliance and the Queensbridge community. We really see this as an opportunity to bring jobs into the public housing area to the north, both construction and permanent jobs. By breaking down that barrier, both a physical and a social and economic barrier, we really see this as a real way of New York City growing into the future.

This is a view from south of Roosevelt Island. You can see the United Nations on your left. This is also a ghosted-in view of what's going to be happening to Long Island City skyline. It's hard maybe to see from the distance, but the ghosted-in buildings, many of them are under construction now , will provide a thousand units of housing. Rockrose has broken ground for their second and soon to be third buildings over there, designed by Architectonica. Avalon has broken ground also. Queens West is really moving along. What you don't see in the rendering is the United Nations Credit Union, the Citibank building and the other things starting to happen.

This is a nighttime rendering, which you've seen maybe in some of the publications, and this again. We want this to be a gateway to Queens and a gateway to Manhattan. We really see the importance of grand architecture, and we really appreciate the vision of the mayor's office and the chair of city planning, Amanda Burden, to allow us to go through this rezoning process. We're glad to hear that architecture and design and green buildings are what the commercial and the residential community want today.

So not only will we get great architecture, you'll get great views, you'll get great outdoor space. You can see the Silvercup sign over there, and there'll be retail right on the esplanade. We're trying to learn from London, which has a wonderful rejuvenated waterfront. One of the things lacking in Manhattan is that Manhattan is ringed by its highways, the FDR and West Side Highway on both sides. In Queens and Brooklyn you have a great opportunity to build right on the waterfront and not being blocked by a highway.

This is a nighttime rendering. You can see the reuse of even the terra cotta panels on the building. We're taking the history of the site and blending it into the texture of the architecture and the landscape. This is not moving the existing Silvercup sign, this will actually be a new sign on the building. City Planning has been really wonderful to work with, as much as it's been long my brother is shaking his head over there. But we're going through I think over 12 different variances zoning, height, width of the buildings to get a proper office building, but even we were encouraged to bring the history of Silvercup and the Silvercup signs of branding right here to the building because it's a special permit to get a sign on the waterfront. Even to make the landscape more interesting with the Olin Partnership, I changed the tree planting patterns instead of looking like marching soldiers. City Planning has been very open and very creative in how to deal with this.

I think that's it. Thank you very much.

BARRY:

I think I'm going to run out and see if I can buy up the name Silvercup Bakery and then open up a retail store right under that sign and make a lot of money. Thank you very much, Stuart, because for many, many people, understanding how significant the growth on the Long Island City and the Queens West side is, is not fully understood, even though those of us in the industry who follow it realize that billions of dollars are already being committed. It's hugely important to see our waterfronts be developed as the resource that they very much are.

Let me ask if we have any questions here -- let me start here. The question was with presidential elections on the way and the possibility of new regulations, what effect will that have on building regulations and the like in New York City? Any comments on whether the presidential election will impact at the New York State level? I'm just going to answer that from my standpoint. What we see is building regulations in terms of the building process are not impacting developers today in how they are planning. Of course the most notable area of this is post-9/11, the big issue is whether or not security developments in new codes, fire safety, life safety, securing the cores of buildings, barriers and the like, are going to make a major difference in costs for new buildings.

The reality of it is and I've spoken on this recently numerous times in interviews is that we're not seeing the impetus for new regulations coming forward. The buildings department has been studying it, there are codes being proposed at all levels, but there have been very few dollar-impacting costs from security standpoints that are affecting developers today. So far today, we're not seeing that being a major impact on costs. Stuart?

STUART:

If I can just add to that: regulations certainly a add tremendous amount of time. I don't think the political change will make any difference. However, one thing I can say is that Patricia Lancaster, the commissioner of buildings, has done an incredible job cleaning up and improving the speed of the building department and they're actually rewriting the whole code right now. They have a task force working on that with the construction industry.

We all spend as developers a tremendous amount of time going through the rezoning process with City Planning. Then again, it’s the same going through the building department review and waiting for the AG to review any co-op plan or condo plan. If you could accelerate and shorten that time gap, think of the economic development dollars that would really come into this industry.

BARRY:

I think that is something that probably every corporation, builder, developer in this part of the metropolitan area would say could use some attention on the political level.

Question:

Looking ahead to next year, I was wondering if the panel could comment on the impact of rising oil prices and if, in their mind what will the effect be on the projections that were just given to us?

BARRY:

We've already seen substantial rises in the price of steel because of China using up most of the output from the factories worldwide. We've seen rises in the increase in the cost of concrete that have affected construction in the New York metropolitan area and other areas. The big question now of course is the rise of oil prices and the increase in delivery costs and products that are composed of oil, is going to drive up the costs of materials substantially once again.

I think what we have to look at carefully here is whether or not the totality of these prices coupled with issues of inflation, coupled with issues of rising interest rates as a combination are going to make a significant difference when people make their decision whether to build or not in a declining market. If those numbers start to become such that they cripple the profitability factors that a builder is going to use in determining whether to go forward or not, it's going to be a factor. Right now, there is no real major concern amongst the development community that rising oil costs are preventing new development from going forward.

ROSEMARY:

Just the one thing I would add to that is that what we're beginning to see now is that maybe there's been much more speculation in the hedge fund markets into the commodity markets that has clouded the real issues of supply and demand. So we're seeing a lot of volatility in commodity prices at the moment.

BARRY:

I had a question for you, Rosemary. We have a presidential election coming up in roughly 18 months. What national economic factors, international economic factors, things that rise to the level of a growing concern across the country, could have the most impact on New York City's economy over the next 18 months? Is there anything that you've seen that you say well, that's a red flag that we should be concerned about?

ROSEMARY:

I think the first issue, the most proximate, is the whole issue of immigration. I didn't take the time to go into it, but I put it in my imaginary problems category. A city like New York will really suffer if the net effect of all of this fussing and fuming in Washington over immigration is that people just can't get in the door. I worry very much about just the formal application process, the HB1 work visas that they only issued 65,000 of last year and they were all gone on the morning of the first day of the fiscal year, the very first day. I think that the 2007 allocation is already all spoken for. The net effect of all of this has been that we're restricting even legal immigration, legal work flows, and that's not good for the City of New York. Some of the other big issues won't affect us as I indicated in my remarks quite so much, I don't think a housing slowdown, that sort of thing.

BARRY:

Let me ask a question for Stuart that I've been personally fascinated about. Probably four or five years ago, if we could flash back and take a picture of that waterside look on Long Island City I know I was playing tennis at the East River Tennis Facility. Now I'm playing on Roosevelt Island so I'm rooting for a nice landscaped look to it as I go there each week. But what were the factors five years ago when there really wasn't anybody predicting the growth in Long Island City that made Silvercup look inside itself and say I think we could go build a $1-billion facility here of a multifaceted nature, that we have the confidence that we're going to strongly go forward with it? Was that an act of courage when you look back on it now? Or did you really say we're on to something?

STUART:

For the past 20-odd years, we believed in the future of Long Island City, and timing has a lot to do with it. Going back to Jackie Onassis walking through the waterfront 30 years ago, who said that this was going to be the Gold Coast of New York City in many years. And Citibank certainly thought it was going to happen going back into the mid-eighties. Actually, we bought our land from Citibank.

So Alan and I were looking to expand the studio facilities, we needed more land. We bought an old steel factory nearby. We continued to expand our facility. Then as architects and developers, we thought that it would be exciting to build a mixed-use, 24/7 facility. We spent eight years on the community board. The community board didn't want just a bedroom community on the waterfront. It said let's have jobs, let's have retail on the waterfront. So we tried to listen to the local community, read the interest of the industry and everybody wanted the outdoor space too.

So we took a big leap of faith. As architects, we wanted world-class architecture. So we did a request for expressions of interest and we got energized by the international excitement for the site. And luckily for us, the wave continues to grow. The tax credits came through, the industry's growing, the housing market's growing. And now we're glad to hear that the commercial market also needs more space.

BARRY:

Stuart, when we chatted in preparation for this morning's discussion, you made a comment that I thought was very insightful for many people here, because you had a comment about the housing component of your project in terms of an economic factor. Why don't you share that with everybody?

STUART:

We're also looking, with the housing market going so wild, we're looking at the housing as helping underwrite and subsidize part of the other development costs because we need to really compete with Midtown and Downtown for the commercial. Studios are just very expensive to build and don't necessarily make economic sense. The 400,000 square feet of studios we built so far are renovating an old steel factory and an old bread factory. Building new state-of-the-art facilities is going to be a lot more expensive. So we're looking to help underwrite some of that cost, along with taking advantage of other state and city programs that are as of right to build new studios. Also with those are great jobs, and both the city and the state have by very supportive of this whole mixed-use plan.

BARRY:

So when you hear these statistical analyses that we never build enough housing in this town, that's warming and kind of comforting for you.

STUART:

Oh sure. And also over the years we've built over a thousand units of affordable housing, so we believe in all of those needs. The more market-rate housing the City builds, the less pressure we'll have to really open up that whole market for everybody. But we definitely need to build more housing throughout all five boroughs.

BARRY:

Let me share with you, before we take another question, some of the survey results. We asked all of you: "How do you believe each of the following sectors will perform in New York City during the balance of 2006?" On the office front, 25 percent of you here said we will improve significantly; 55 percent of those here say they would improve modestly; 19 percent say the same and only 2 percent said there would be a modest decline.

On the multi-family question about how that sector would perform for the balance of 2006, 20 percent of you said there would be significant improvement; 40 percent said modest improvement; 22 percent said stay the same; 17 percent said a modest decline and 2 percent said significant decline.

On the retail sector, 14 percent of you said there would be a significant improvement; 36 percent said there will be a modest improvement; 35 percent said stay the same and 16 percent said there will be a modest decline.

On the hotel-leisure sector, 27 percent of you said there would be a significant improvement; 47 percent said a modest improvement; 20 percent said it will stay the same and 10 percent said the hotel-leisure market would decline modestly.

Next question was, by the end of 2006, how do you believe interest rates will move? 15 percent said rise significantly, 73 percent said rise modestly, 5 percent said decline modestly we have to talk those people, we really want to speak to them 1 percent said decline significantly and 6 percent said remain the same. They must have inside information with the new Federal Reserve guy.

The last question was, by the end of 2006, how do you believe the stock market will move? Four percent of you and I want to talk to those 4 percent said there will be significant rise I want to know what you know; 45 percent of you said there will be a modest increase; 23 percent said remain the same, 24 percent said there will be a modest decline and 4 percent were really pessimistic, saying there will be a significant decline.

So what we saw in this quick survey from all of you, is by and large this audience believes there will be modest improvements across the board in the sectors of our building economy and only modest results in our stock market and slightly rising interest rates, but nothing dramatic. And I think that's characteristic of what we've heard from our speakers today because by and large, the New York economy from all measures appears to be strong enough to counterbalance anything too dramatic that might happen, short of a very dramatic event like a terrorist attack and the kind of things that we all fear greatly. So let me see I think there was a question? Yes, ma'am?

Question:

Given the indicators that were shared, and the projections of the trends that we're anticipating, how are they going to affect the emerging markets? When I say emerging markets, I'm talking about your distressed or low-income areas, which usually are the residential areas for these thousands of immigrants coming to our area. Those areas are in need of major redevelopment and development efforts. So how would these trends influence, spur, any type of development within those markets?

BARRY:

Of course we all know about developments up in Harlem and in the Bronx and so on. Maybe you can just give a little bit of insight in there without citing statistics or anything, off the top of your head.

JOHN:

As Rosemary said, immigration's a big issue. Immigration has always been very positive for New York and as I look forward now, it's probably as important for us now and it's ever been. We have a lot of different type of immigration and at a breakfast we had, Alan Greenspan suggested a policy that anyone that receives a PhD in the United States in a hard science, mathematics or computer technology should get a green card with the PhD. Clearly that would help New York because we bring in a lot of different types of people here.

The city is expanding. As long as there's positive growth, there's going to be good development opportunities on the residential side. I'm very bullish on the hotel industry, it's at high 80s occupancy level now and we're at room rates that are past 2000. We have now a number of places, Long Island City clearly the 6th Borough, you know, the Jersey Waterfront as we call it, and Brooklyn is having great development opportunities. What's happening in Downtown Brooklyn is really amazing if you look at it over the last few years and Long Island City with the critical mass of MetLife and Citibank there, the projects that we're talking about, and we're looking at a number of office users are looking at the market now because of the price differential and the proximity to Manhattan all this filters down, because these are the jobs that are critical for development and redevelopment everywhere in the city.

ROSEMARY:

Barry, if I could just add to that. I think that this decade is probably the best decade for the boroughs of New York City since probably the 1920s when there was a big building boom, particularly in Brooklyn. In my time in New York, I've never seen anything quite like it, with the promise of change and redevelopment throughout the boroughs and in the neighborhoods.

BARRY:

As promised, it is 10 AM and we want to thank each of our sponsors for making this such a successful event. And a special thank you to Rosemary Scanlon, John Powers and Stuart Match Suna for providing their excellent and informative insights. Thank you all.