LUNCH BREAK

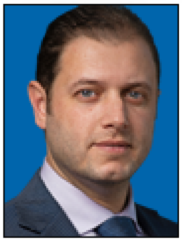
With the economy in the midst of turmoil, real estate is directly affected. So I got together several past interviewees and presented to them a number of questions posed to me by readers. The virtual panel consisted of property owners, developers and brokers.

You can email me at nesanel@amimagazine.org with your questions for a future panel. Looking forward to hearing from you!

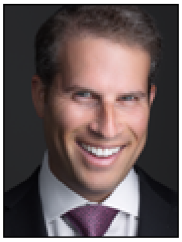
—Nesanel

REAL ESTATE ROUNDTABLE

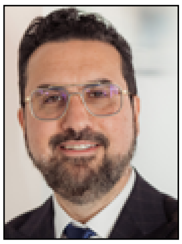
BY NESANEL GANTZ



Shlomi Bagdadi
Tri State Commercial Realty, Offices located in Manhattan, Brooklyn and Philadelphia. Issue 615, April 26, 2023



Moti Belsky
Moti Belsky Ltd., Real Estate Equity Brokers, Located in Manhattan Issue 577, July 20, 2022



David Junik
Pinnacle Realty of New York, LLC. Issue 572, June 15, 2022

Lev Mavashev
Alpha Realty,Located in Brooklyn. Issue 548, December 22, 2021

Jonathan Menlo
Elite Investment Management Group, LLC Located in Los Angeles Issue 526, July 14, 2021

Yisroel Orzel
White Eagle Property Group, Polaris Healthcare Services, Located in Monsey. Issue 665, April 17, 2024

Ceasar Salama
KSR Development Located in New York. Issue 643, November 15, 2023

I'm finding it harder to put deals together in the current market. Are there any emerging markets that you think will soon be hot?

Shlomi Bagdadi:

No matter how tough the market gets, if we keep following up with our clients and touching base with them frequently, they will transact. To me, that's just the normal market. A busy market just makes us work less, and a slow market demands that we be committed. If we stay committed, deals will get done.

In my opinion, government housing and assets that can house educational facilities are going to be on fire in the next couple of years.

Moti Belsky:

Be patient. Real estate isn't meant to be a short- term game. A long-term approach awards investors in the long run.

David Junik:

In the current market, it's important to step back and analyze potential opportunities. This may involve exploring short sales, educating sellers about market conditions and new values, or finding creative financing solutions such as owner financing. Flexibility in dealing with different asset classes is also important, as opportunities may vary. For instance, there is currently a significant potential downside in the office market or multistory industrial properties compared to single-story industrial or prime residential development sites.

Maintaining constant communication with clients is also important. Initially, they might not be flexible, but over time they may become more open. It can take a few months of consistent education and discussion before they are ready to finalize a deal.

One creative approach is to look at who purchased properties over the past five years. Many of these mortgages are soon due and the owners may be forced to transact, presenting potential opportunities for new deals.

"A busy market just makes us work less, and a slow market demands that we be committed. If we stay committed, deals will get done."

—Shlomi Bagdadi

Lev Mavashev:

Despite the current market challenges, there's still healthy demand for well-located, newer constructed multifamily buildings. With the passage of good cause eviction laws, I anticipate we'll see more trades involving these types of properties. Focus on areas where newer developments are prevalent and you can capitalize on this demand.

Jonathan Menlo:

The market has definitely slowed, especially for my focus, which was luxury homes. The reasons were mostly interest rates, as well as the new ULA tax that was passed in California. Personally, I think the best way to go is to find very basic homes in blue-collar neighborhoods and do a quick fix-and-flip. The margins aren't as high, but it's less risky and the turnaround is very quick. Plus there is always demand for the average working man's house.

Yisroel Orzel:

Between higher interest and insurance rates (especially properties in wind and flood zones) and generally increased operating costs, the market has been extremely tough. For the most part, cap rates are quite low. The only possibility of doing a deal is for properties that owners need to sell because they are under pressure, dealing with floating interest rates or general operational issues. But those deals are hard to come by, which is why not many properties have changed hands .

It's hard to pick emerging markets on the horizon. Some of the hottest markets have recently cooled down. The Midwest markets still have some appeal if you can find something that makes sense.

Ceasar Salama:

Expectations from equity, coupled with changes in debt markets and increased regulatory challenges in New York have certainly made things difficult. This has created significant downward pressure on property values, which I believe has opened up buying opportunities that don't come around very often.

My advice would be to focus on quality. Great locations rarely become less desirable. In difficult times, we typically see a flight to quality because it's a chance to acquire locations at prices that make sense without the need to be overzealous in underwriting projections.

As a firm, we remain very bullish on New York City and are continuing to seek opportunities in strong Manhattan and Brooklyn submarkets.

How much do you believe interest rates need to go down to right the ship?

Shlomi Bagdadi:

The market is mostly affected by an uncertain future. When the interest rate future is unknown, investors, developers and lenders are hesitant to pull the trigger on pretty much every sector of commercial real estate: acquisitions, dispositions, construction, lending, etc. I do believe that lowering interest rates or at least knowing the direction in which they are going can put the market at ease and stimulate CRE.

Moti Belsky:

It depends on the particular deal, but rates right now aren't super high compared to historical norms. They were at historic lows from 2020 to 2022, which drove the market higher, but if you paid a higher cap rate or took a long-term fixed rate loan you're probably okay right now. The problem is short-term debt, where people paid very low cap rates assuming they would stay that way forever. Office real estate is a whole other story.

David Junik:

In order to stabilize the market effectively, we need to reduce interest rates by approximately 200 basis points. This adjustment would make the initial underwriting more reasonable from an exit standpoint. With stable interest rates, developers would be able to secure the necessary financing to complete their projects. Due to high interest rates, many deals don't make financial sense to complete, so developers are staying on the sidelines.

Lev Mavashev:

Interest rates are a crucial factor. While it's hard to pinpoint an exact figure, a reduction of at least 1-2% could significantly boost investor confidence and transaction volume. The key is to stay optimistic and be ready to act when the rates do start to ease.

Jonathan Menlo:

It really depends because it's all very subjective. From an investment point of view, taking a construction loan was always a higher rate and now it's ridiculously high—if you can even get one. I think once we get below 5% things will turn around. But just to put things in perspective, there was a time not long ago when you could finance a property for under 3%. I'm not so sure we will ever see those days again. It's just a hunch, but who knows?

Yisroel Orzel:

I believe that if it settles at about 5%, you might find some deals that are worth looking at. Hopefully they won't rise in price.

Ceasar Salama:

It's hard to say. As much as we'd love to see rates come down, we analyze based on current conditions, so if and when they do drop, we'll certainly be the beneficiaries of an improving market and have our downside protected if those rate cuts don't come as soon as we'd like.

I'm looking to buy a house, but the interest rates are really high. Some people are advising me to wait a bit, but others are saying that once the rates drop the prices will go up, so I should buy a house now and perhaps refinance later.

Shlomi Bagdadi:
I always say that if you can afford to buy, don't wait for anything, especially if you're buying a house in a nice neighborhood. Real estate has a long history of appreciation over time regardless of interest rate fluctuation.

Moti Belsky:
A house is a place to live, not an investment. Assuming you need the house and can afford it given where rates are today, you should buy it. You can always refinance at a lower rate if they go down.

David Junik:
In the neighborhoods we live in, housing prices haven't decreased. In fact, they have remained stable, and there's a strong argument that prices will increase once interest rates come down. If someone has the opportunity to buy at today's rates but also has the flexibility to refinance within the next two years without a penalty, I would advise him to take it.

Lev Mavashev:
My advice is that if you find a property that meets your needs and budget, it might be worthwhile to buy it now and refinance later. Waiting for rates to drop could result in higher property prices, offsetting any savings from lower interest rates.

Jonathan Menlo:
The homes that are located in good areas, which just so happen to also be the Jewish neighborhoods, tend to not fluctuate in price. In the 2007 housing bubble crash, the values in my area only dropped about 5% to 10%. Negotiating points can go for or against you depending on the market. For example, in a good market sellers will want all-cash offers, whereas in bad markets sellers will cave in to requests like escrow periods and contingency periods. That being said, if you have the money, buy. You'll still be earning equity—yes, you'll be throwing money out on extra interest—but your property value will go up.

Yisroel Orzel:
You could consider buying now with an adjustable interest rate and then wait until refinance rates are more favorable. Bear in mind that the areas where the *frum* people live are still very strong, and it's very difficult to predict where prices are heading.

Ceasar Salama:
The answer is specific to the market on a very micro level. For example, we launched sales at a conversion in Brooklyn Heights just as rates were starting to climb, but our project was at an entry-level price point and sold out within eight weeks. Conversely, our Greenpoint project at 171 Calyer Street has been achieving record-breaking prices.

"Be diligent and patient. Ask a lot of questions and don't assume that every deal will work out as planned."
—*Moti Belsky*

Are you investing in real estate right now, and if the answer is yes, in which areas are you investing? And are you investing in office space or residential?

Shlomi Bagdadi:
Yes. I'm investing in retail primarily in the Five Boroughs. I like to buy vacant distressed properties and infuse life into them through tenancies.

Moti Belsky:
I'm on the service side of the business, so investing isn't my thing, but I think that multifamily buildings and certain types of retail and hotels are probably still good investments if you're buying them correctly. In terms of where, I would say in high-growth markets and municipalities that work with landlords and don't oppose them.

David Junik:

I would only invest in properties with five units or fewer to avoid dealing with punitive laws that favor tenants excessively. You're best off investing your money in private equity through institutions like UBS or Morgan Stanley, where you can achieve higher returns with greater transparency and less aggravation. Personally, I would discourage anyone from investing in random syndication deals. As tempting as they sound on paper, most of them do not live up to expectations, and that includes when it's offered within our community.

Lev Mavashev:

Yes. I am always selectively looking for opportunities. Real estate is a long-term game, and I'm always buying in an up market as well as a down market.

Jonathan Menlo:

As I mentioned, I mostly fix and flip homes in working-class neighborhoods. I'd stay away from office space.

Yisroel Orzel:

Of course. We are always on the lookout for a deal that makes sense. However, office space today is quite risky and has been slowing down ever since COVID, when people started working from home .

Ceasar Salama:

Absolutely. We've made significant investments across all sectors of New York City this past year.

Can you name one negative and one positive trend you are observing right now that others should be aware of?

Shlomi Bagdadi:

It's a buyer's market, so sellers should know with whom they're dealing. For example, many deals that buyers commit to closing within 30 days actually take eight months to do so.

On the positive side, many people are more comfortable with looking to buy an asset to house their businesses because sellers are more willing to work with them on pricing. It's a great market for owner/occupier, despite the higher interest rate.

Moti Belsky:

One positive we are seeing is people being a lot more disciplined and diligent when it comes to deals. On the negative side, I'm having a hard time watching owners, investors and other brokers struggling. I think that if we did a better job educating each of these sectors, people would be more prepared to handle the inevitable downturns.

David Junik:

We are seeing landlords becoming more reasonable with leasing and selling prices, but it is still essential to be cautious. Only invest in properties with which you have experience, to reduce risk and ensure a sound investment.

Lev Mavashev:

A negative trend is the regulatory environment, which continues to pose challenges for landlords. On the positive side, New York rents remain among the highest in the country. The persistent demand ensures that well-located and well-maintained properties continue to perform well, offering solid investment opportunities despite market fluctuations.

Jonathan Menlo:

I'll touch on one thing I've experienced that's specifically for owners or prospective

buyers of office buildings. As we all know, the demand for office space is down since COVID. Some of it has been converted to residential, but that can be very difficult to do due to zoning, lack of windows and high construction costs. What I did, however, was to take several mostly vacant office buildings and convert large spaces into "executive suite spaces." This is basically a bunch of small offices that can usually hold one or two desks and have common areas with kitchens and conference rooms and all kinds of amenities. It took off like fire, and in no time all these mini suites were full. The biggest advantage, aside from increasing your vacancy, is that you can charge two to three times the amount of rent per square foot. Renters pay a premium for a space like this usually because it's so small, so to them the extra cost is marginal, plus they get the amenities.

Yisroel Orzel:

Freddie Mac and Fannie Mae have become much more careful in their loan decisions. Mortgage brokers have much less of a say in the loan process, so be careful to dot your "i's" and cross your "t's." In general, the real estate business isn't what it was only a few years ago. To me, taking the conservative high road makes the most sense. To make real money today, you have to run a really tight ship and manage your properties well.

Ceasar Salama:

It's been interesting to see the reemergence of private capital buying in the city while the institutional players have been focused elsewhere. This has also created space for users and nonprofits to step into the ring. We're seeing this on both sides of our business right now. Our brokerage has been selling to private investors who have largely been quiet for the last several years, and we've been able to acquire some fantastic assets at what we feel are incredible discounts.

Can you share a personal win or loss that you experienced lately?

Moti Belsky:

Unfortunately, right now it feels like there are more losses than wins, but we are surviving, *baruch Hashem*. It's taking an extremely long time to get ordinary deals closed, and everything is being extremely scrutinized. We had a deal tied up recently that the investor pulled out of a week before the closing because of an action that was started against him. This is someone who has been in business for over 30 years and never had a single foreclosure.

"Professional advice and clear agreements are essential to avoid misunderstandings and protect your investment."
—*Lev Mavashev*

David Junik:

Over the last 25 years I have invested in a diverse portfolio, including office, retail, residential and industrial properties. Currently, my office and retail portfolios are facing significant challenges, and some may result in losses. However, due to the diversified nature of my investments, I anticipate achieving positive returns despite those setbacks.

Lev Mavashev:

Being able to successfully navigate a turbulent market was definitely a personal win. Facilitating the sale of buildings with expiring 421-a tax abatements at 525 Union Avenue, 97 Grand Avenue and 96 Steuben Street in Brooklyn was one way to navigate today's complex regulatory environment.

Jonathan Menlo:

On the down side, I had to get out of the luxury home building business, which was my passion. However, I found a new niche in low-cost fix-and-flip home construction. We have a decent enough pipeline tied up; now all we have to do is get everything to close!

Yisroel Orzel:

Considering today's market, we are, *baruch Hashem*, doing well. Our conservative approach has always pointed us in the right direction. We adjusted a few things to cut costs and manage our properties at a higher optimum level, so we aren't dealing with some of the issues that other companies are having to deal with.

Ceasar Salama:

We recently oversaw the disposition of

Magen David Yeshivah's high school building in a deal that included the sale of the property to a large charter school network with a short-term leaseback, so they can continue to operate while constructing a bigger building on Quentin Road. Working on behalf of the board to navigate a complicated process that means so much to the community was a very special experience and something we are incredibly proud of.

Many people who aren't experts in real estate are investing in it anyway. What advice can you give them?

Shlomi Bagdadi:

Read the details. You have to understand what it means for both the short term and long term. Consider things like monthly cash flow, depreciation and 1031 exchange flexibility at the time of exit.

Moti Belsky:

Be diligent and patient. Ask a lot of questions and don't assume that every deal will work out as planned.

David Junik:

Many people have experienced significant financial losses in the past 24 months. Market conditions have played a part, but a large portion can be attributed to unscrupulous syndicators who prioritized their fees over the best interests of their investors. Many individuals seeking opportunities to build wealth have been taken advantage of. Remember, no one ever lost money by not investing. Always prioritize trust in the sponsors behind any syndication deal you consider.

Lev Mavashev:

Investing with people you know can be beneficial, but it's crucial to make sure that everyone is on the same page with regard to expectations and risks. Professional advice and clear agreements are essential to avoid misunderstandings and protect your investment.

Jonathan Menlo:

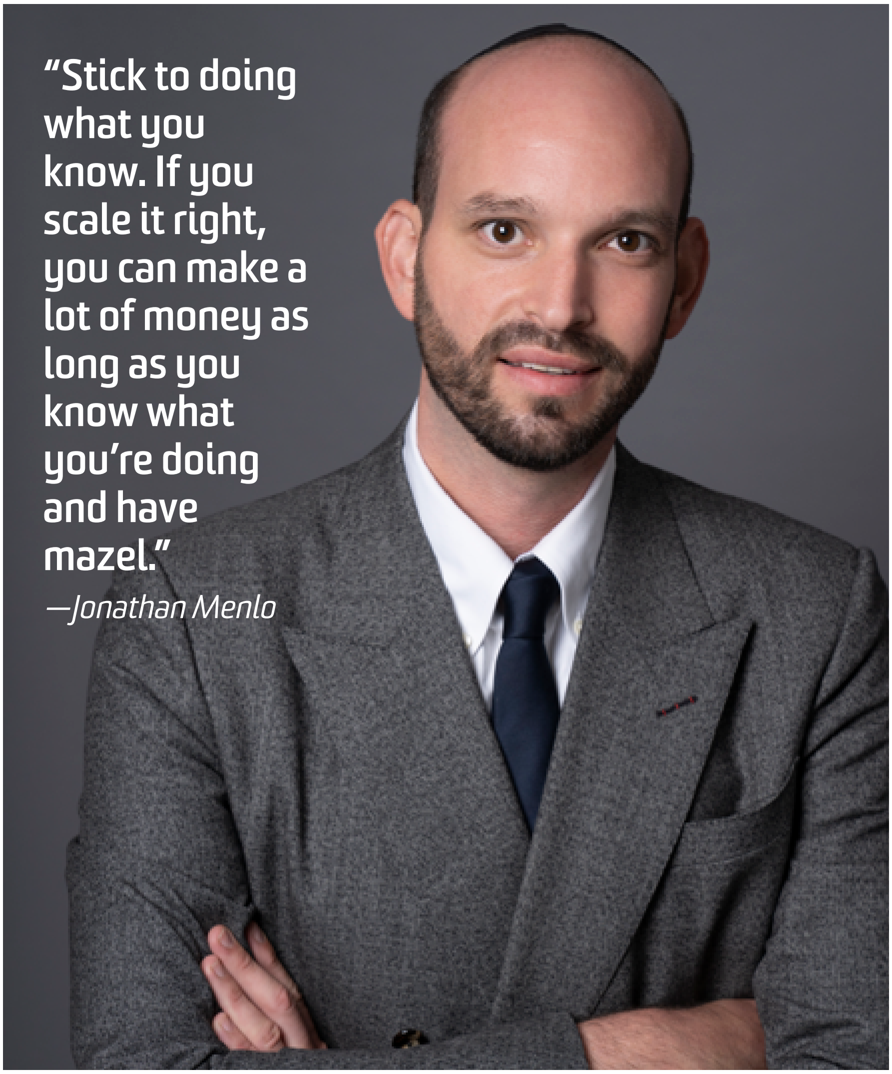
I cannot tell you how many times I've heard stories about people putting money into a "real estate fund" that turns out to be some kind of Ponzi scheme. I am very skeptical of things like that because you have little to no control, and you never really know where your money is going. I always say, "Stick to doing what you know." If you're an electrician, start an electrical company. If you scale it right, you can make a lot of money as long as you know what you're doing and have *mazel*.

Yisroel Orzel:

Do your homework. Ask a lot of questions and look at their track record. Speak to professionals and get their opinion. Some investment and syndication companies mean well, but they make a lot of assumptions that don't pan out. Above all, if it looks too good to be true, it probably isn't true.

Ceasar Salama:

Things don't usually go exactly the way you expect. Make sure you're investing with a sponsor who will do whatever he can to protect your investment if things ever go sideways.



What do you believe is the biggest challenge in real estate right now?

Shlomi Bagdadi:

Uncertainty, which is holding back the available liquidity.

Lev Mavashev:

The biggest issue is definitely the regulatory environment. The constant changes and uncertainties, especially with rent regulations, are making it tough for landlords and investors. You need to be on top of these changes and plan strategically to maintain profitability and stay compliant.

Jonathan Menlo:

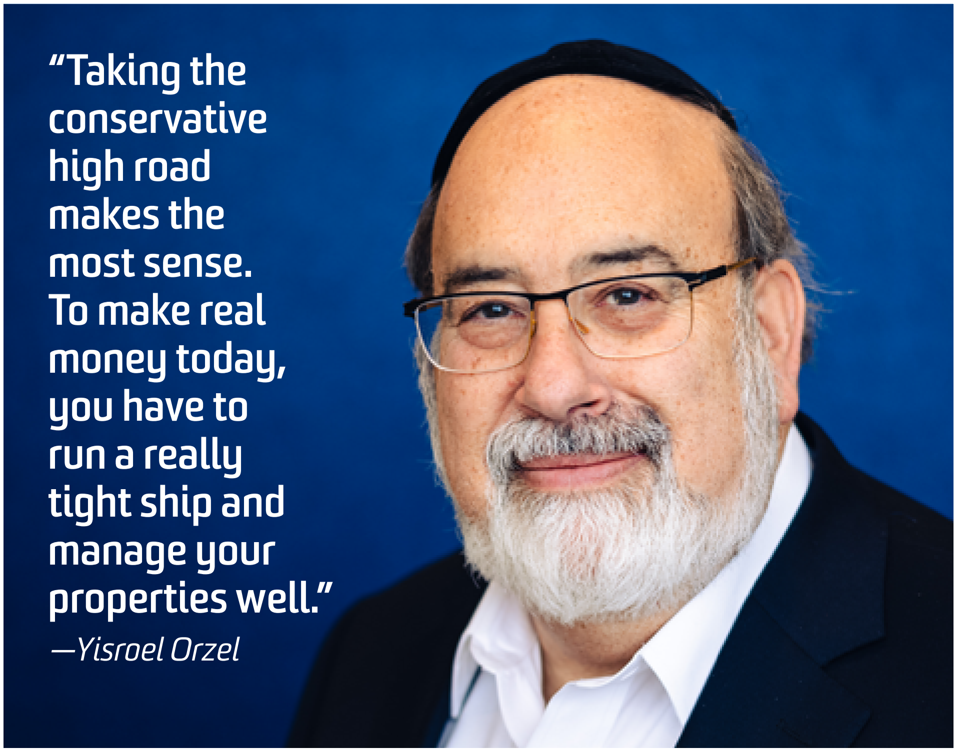
Now that California has passed the ULA tax, I'm inclined to believe that other liberal states will do the same. In fact, I just came across an article that another state is already considering it. There is an ever-growing assumption that real estate developers are evil and need to pay more and more taxes. I don't see that slowing down.

The other big issue is the entitlement and permit process. In some major cities it can take *years* to get a permit. That increases holding costs and the overall return. Politicians talk about cutting red tape, especially given the housing shortage, but nothing has changed and it prevents more development from happening.

Of course, a lot depends on who the next elections. Only time will tell.

David Junik:

The impact in the current market on real estate values varies by property type. For rent-stabilized multifamily units in New York City, values have dropped by 30% to 40% due to new regulations that give tenants more rights than a landlord. The office market has also been significantly affected, with values down by more than 50%. This is largely due to shifts in workplace dynamics, as the need for employees to be in the office every day has diminished.



Let's say that I have a property I want to sell. Should I wait for the interest rates to go down?

Shlomi Bagdadi:

It depends on your objective for either selling or buying. If you're selling to buy something else, in the current market it's possible to find better deals than before. The only downside is that you will finance at a higher rate, but you're also paying less up front.

Lev Mavashev:

If you're considering selling, it might be wise to move forward now. Although waiting for interest rates to go down could potentially increase buyer activity, the current high demand for quality properties can work in your favor.

If you're looking to buy, it's a bit of a balancing act. High interest rates are certainly a factor, but so is the availability of good deals.

Jonathan Menlo:

It's a very subjective question. If it's a good offer, I'd say go for it! As far as buying, I'd probably advise someone to wait it out, although there are quite a few properties in foreclosure. If you have cash available for an office building it might make sense.

David Junik:

If you're not in a rush to sell, it's a good idea to wait for interest rates to go down so it will be easier for buyers to borrow money. If you're looking to buy property, it depends on your needs. If it's for personal use and you can make the numbers work, you should consider buying now and refinancing later. However, if it's for your business, you might want to lease for a couple of years until pricing stabilizes and the monthly payments make sense for you. For investments, it's important to find a really good deal, potentially a value-add play to ensure that it's a wise decision.

Any final advice you wish to share?

Shlomi Bagdadi:

Always keep your finger on the pulse!

Lev Mavashev:

Stay informed and adaptable. The market is constantly evolving, and those who succeed are the ones who can pivot quickly. Build a network of trusted advisers and keep a close eye on emerging trends to stay ahead.

Jonathan Menlo:

Financial success is almost entirely dependent on *mazel*. Yes, you need to make an effort, but if Hashem doesn't want it to work, it won't. The proof of this is that some of the dumbest, laziest people are millionaires, and some of the hardest-working and brightest people can't make a dime.

David Junik:

When investing with friends and family, it's common to feel the fear of missing out and be attracted by the possibility of high returns and quick exits. However, I recommend taking a cautious approach. It's important not to rush into any deal without thorough vetting by professionals.

On a positive note, those holding cash will likely find rewarding opportunities ahead. Over the next six to eight months, there may be ample chances for swift transactions and favorable deals, as prices could remain depressed until interest rates stabilize.

Yisroel Orzel:

In today's market you have to proceed very carefully. Just remember that you don't always have to hit a home run. The singles and doubles run up your score as well.

Ceasar Salama:

The greatest success stories sometimes emerge from difficult times. Work twice as hard while things are tough and it will pay off in spades when the market turns. ●

Have a business dilemma or question? Want experts in your field to answer them? Email us at nesanel@amimagazine.org.