Wealth
Investing

New York's Empty Office Buildings Lure Rich Families Hunting Bargains

Smaller investors are replacing institutional buyers, seeing an opportunity in the long-coveted real estate market.

An entity co-founded by the son of a Quebec businessman bought AIG's former headquarters at a 7% discount from the previous sale price in 2019. *Photographer: Amir Hamja/Bloomberg*

By Natalie Wong and Amanda Albright
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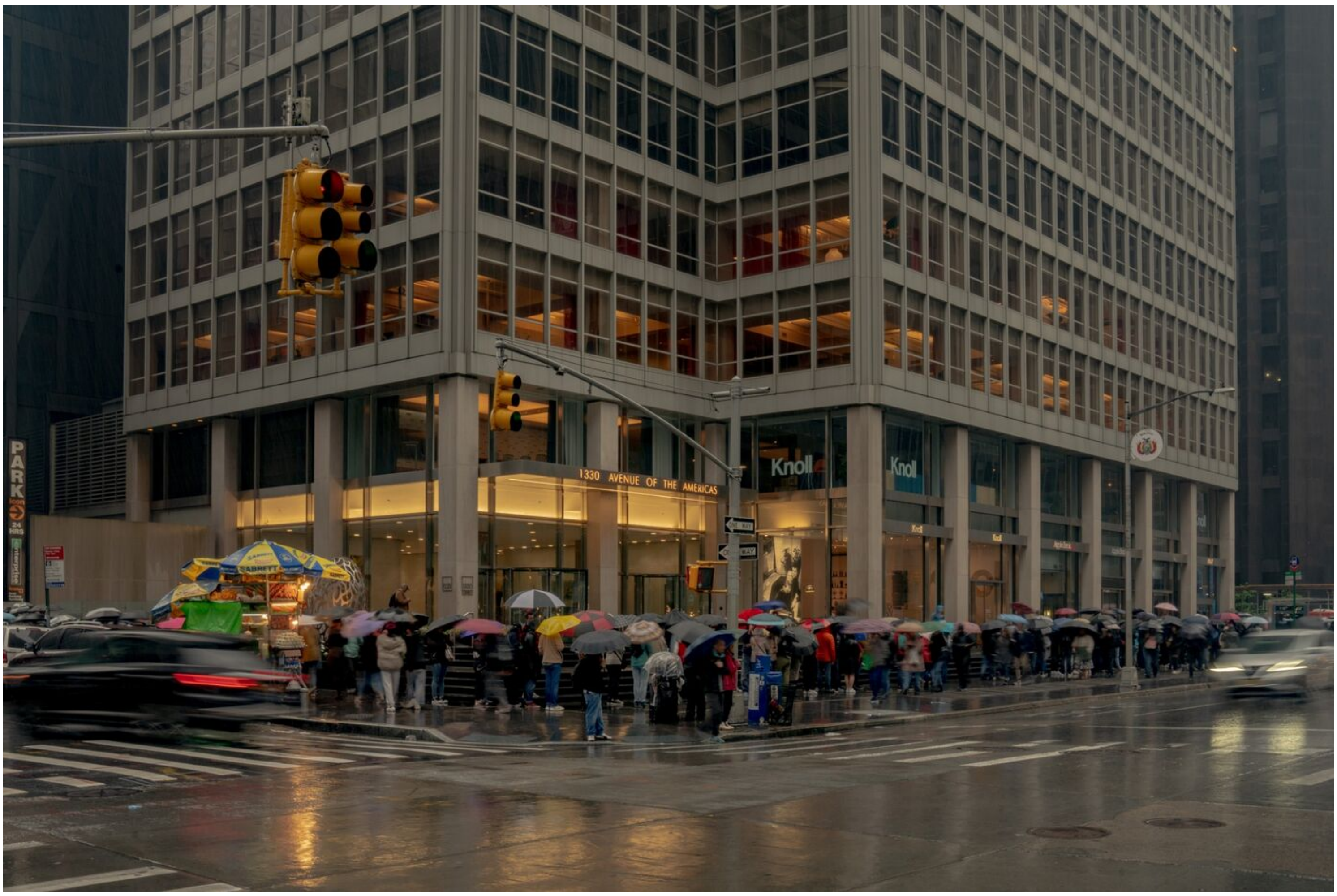
Manhattan's commercial real estate market is reeling, offices are sitting partially empty and rising interest rates threaten to bring widespread defaults.

But for a subset of wealthy investors, the allure of owning New York City property is particularly strong.

With large institutional buyers pulling back on deals, high-net-worth families and little-known developers are bargain-hunting for Manhattan office buildings. They're making up an increasing share of purchases, according to brokerage Savills, finding an opportunity for a slice of what was once among the most coveted commercial-property markets in the world.

More transactions are likely on the horizon, as existing owners who are strapped for cash and struggling with soaring borrowing costs look to offload their buildings at a discount. Family offices, which manage money for the ultra-rich, are among those that are interested in the chance to snap up properties, according to interviews with brokers and wealth advisers.



A consortium of family-run businesses purchased Midtown's 1330 Sixth Ave. for $320 million from Blackstone and RXR. *Photographer: Amir Hamja/Bloomberg*

"You start to get buy-in from people who aren't mired with the vagaries of the local market, and are just saying 'Wow, New York is cheap right now, I'll buy,'" said Will Silverman, a managing director at brokerage Eastdil Secured. "They don't have to rationalize anything to an investment committee. They just have to be convinced that it's the smart thing to do."

Seven of the 11 New York office acquisitions completed in the second half of last year involved wealthy individuals, family-run companies or smaller developers as buyers, according to Savills data, which covers deals above $50 million. In the first half of 2022, nearly all of the acquirers were institutional firms or larger real estate companies, which traditionally dominate deals for Manhattan towers.

Smaller Investors Swoop In on New York Office Deals

Manhattan office sales by buyer type since 2021

Source: Savills Research

Note: Blue deals consist of mainly large institutional players, while purple deals may include capital backing from larger firms. Data measures transactions of more than $50 million.

Today's buyers are taking advantage of a slump in property values in a city particularly battered by remote work and high vacancies. Manhattan office prices were down 26% in the first quarter from a peak in 2017, according to MSCI Real Assets.

"Whenever you have a downturn you see a lot of the big institutional players on the sidelines for a while, keeping their powder dry until a torrent of opportunities come where they can get a good deal," said Marisha Clinton, senior director of Northeast regional research at Savills. "One person's trash is another person's treasure."

A joint venture purchased 830 Third Ave. in New York. *Photographer: Amir Hamja/Bloomberg*

An entity co-founded by Carlo Bellini, son of Quebec businessman Francesco Bellini, late last year bought the former American International Group Inc. headquarters in lower Manhattan at a 7% discount from the previous sale price recorded in 2019, Savills said. In November, a consortium of family-run businesses purchased 1330 Sixth Ave. for $320 million from Blackstone Inc. and real estate firm RXR. That was down from the $400 million that a group led by RXR paid for the Midtown property in 2010.

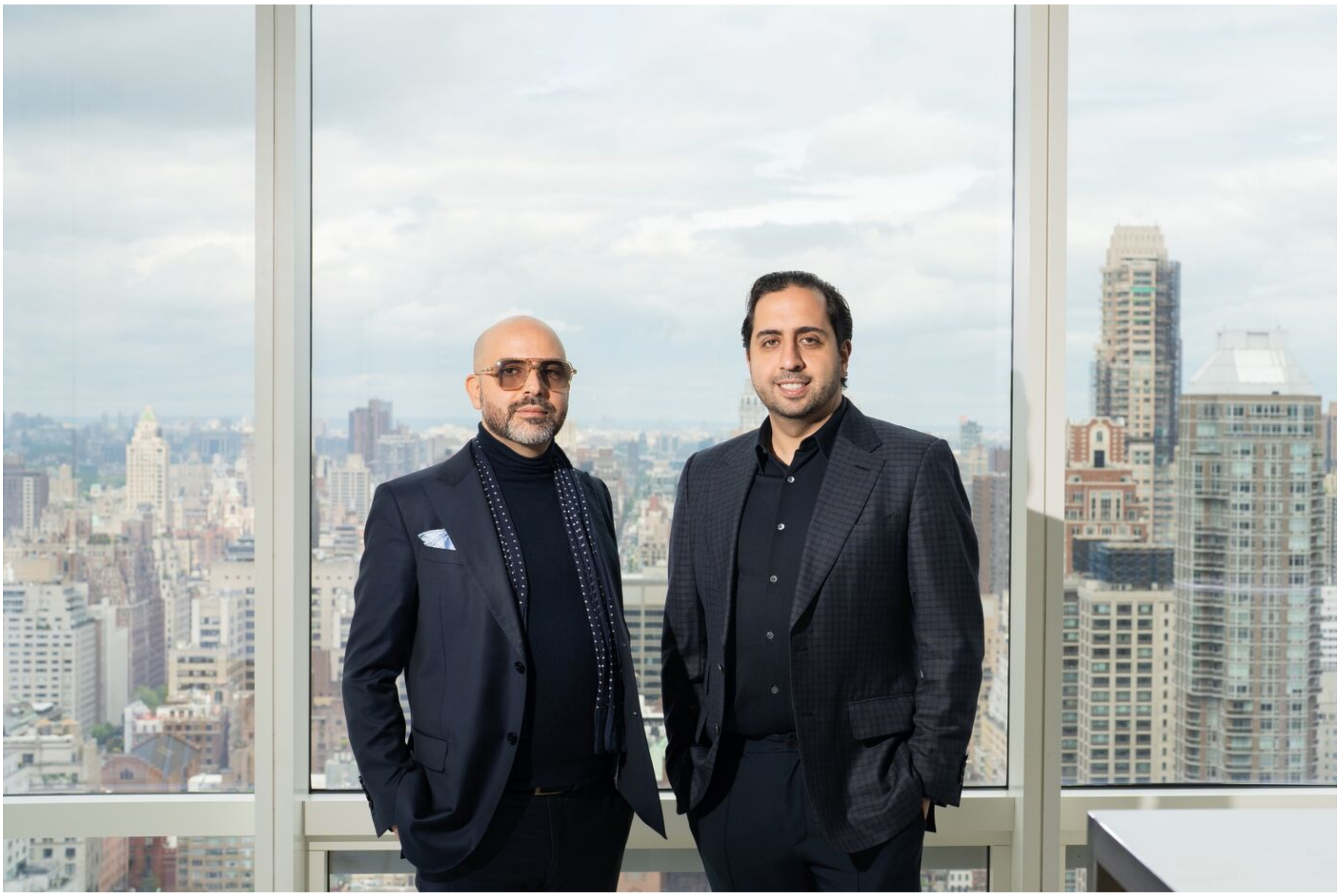
Empire Capital Holdings, which invests in commercial real estate for wealthy families, was part of the 1330 Sixth deal and teamed with Namdar Realty Group to buy 830 Third Ave. last August, along with 345 Seventh Ave. in 2021. Josh Rahmani, Empire's founder, said there's a "temporary dislocation in pricing" in New York, and the downturn presents an opportunity for well-capitalized investors who can bet on the city's recovery.

"Right now, the best opportunities are in New York," Rahmani said in an interview. "I think that when the rebound happens, it'll happen very quick with international money, so while opportunities exist, we're very quick to react on assets that we like. And if the price is right, we don't have a huge due-diligence process. We're able to move quick."

Global Buying

Wealthy investors around the world are betting on real estate as the end of the easy-money era creates opportunity for rich buyers who have long investment horizons and low debt profiles.

Ultra-wealthy individuals and their investment firms – including Zara founder Amancio Ortega, Spain's richest person, and Joe Tsai, Alibaba Group Holding Ltd.'s co-founder – were the most active buyers of commercial real estate last year for the time ever, according to Knight Frank. New York led the global ranks of cities for sums spent on commercial property by local private investors.



Josh Rahmani, left, and Ebi Khalili, founder partners of Empire Capital Holdings. *Photographer: Amir Hamja/Bloomberg*

A survey of more than 500 private bankers, wealth advisers and family offices globally found that about 46% of them see real estate as a top opportunity to increase their wealth. Offices are a top target sector in 2023 for ultra-high-net-worth individuals, who see real estate as a haven during a potential US economic downturn, Knight Frank said.

Read more: World's Rich Take Advantage as $1 Trillion Property Market Drops

Family offices and high-net-worth individuals have long flocked to commercial real estate in New York, said Donald Bredberg, managing director at StoneCreek Partners. He said the difference now is those buyers no longer have to pay "trophy" prices for properties.

Wealthy individuals "are getting ready for the same kind of acquisition period that's been occurring for five years in shopping centers," said Bredberg, whose firm advises family offices on real estate deals.

He's working with a European family office that's interested in buying an office property in a city such as New York or Chicago and potentially turning it into a residential building. Some family offices may be particularly attracted to distressed opportunities with a conversion option, he added.

Still, the reasons abound for both institutions and smaller buyers to be cautious. Dealmakers and banking executives from Apollo Global Management Inc.'s Marc Rowan to Citigroup Inc.'s Jane Fraser have recently warned of the pain to come for owners of office buildings. In New York, office properties are facing a potential $50 billion wipeout of value because of remote work, according to a study from the National Bureau of Economic Research.

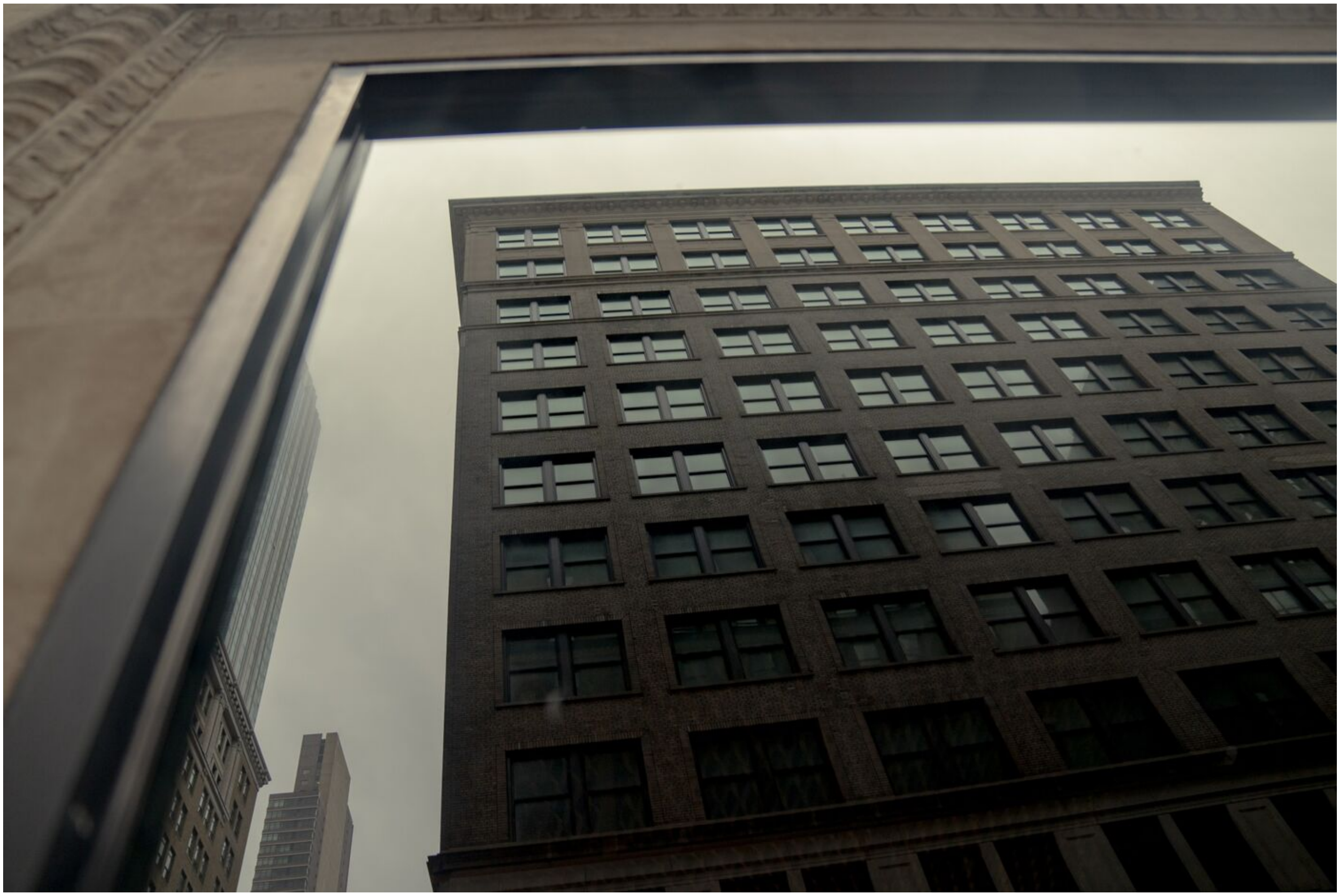
"The risk is, what do these cities look like over the next 10 years?" said Paul Karger, co-founder of TwinFocus, a Boston-based multi-family office which oversees about $7.5 billion for wealthy families. The firm recently decided not to co-invest with a different family office to buy a New York City office building.

"It was a bet we weren't willing to make," he said.

Occupying Space

One recent New York deal exemplifies the city's shifting real estate fortunes. In late 2017, a Pacific Investment Management Co. office landlord bought a Madison Avenue building and shortly after leased all of the space to WeWork Cos., one of the city's biggest private-sector tenants at the time. The beleaguered co-working firm terminated the lease during the pandemic, leaving the property completely vacant.

In February, Pimco's Columbia Property Trust cut its losses on the building, selling it at an $11 million discount to consumer-products company Enchanté Accessories for $77 million.



WeWork terminated its lease at 149 Madison Ave. during the pandemic, leaving the property completely vacant. *Photographer: Amir Hamja/Bloomberg*

Ezra Erani, president of Enchanté, was the driver behind the deal and saw a chance to upgrade from leasing space and move to a building he could control at a cheaper price, according to people familiar with the matter, who asked not to be named speaking about private matters. Erani and Enchanté didn't return requests for comment.

For other buyers, the deals are more opportunistic. Metro Loft Developers LLC, a small local firm that built its business by converting old offices to apartments, joined a group of investors to buy JPMorgan Chase & Co.'s former offices in the Financial District at a 7% discount from the previous sale a decade ago. They plan on converting it into 1,300 luxury apartments.

Nathan Berman, founder of Metro Loft, knows how rare these opportunities are. He purchased a Tribeca office, 17 John St., for $5.2 million in the late 1990s, when vacancies were high and few developers wanted to bid for the sites. He sold it more than a decade later for $85 million.

This is a chance "to jump into the market," Berman said. "This is a cycle, which will probably correct itself in three, four or five years, so it's not forever."

– With assistance by Raeedah Wahid