The Humpty-Dumpty commercial market

by Leif Johnson

EIR reported in our June 29 issue that a sharp and rapid crunch was taking place on the New York City commercial real-estate market, a crunch which will last, according to those who had a hand in the orchestration of the event, for three to five years.

Prime office space will plummet another 20 to 30 percent beyond the 20 percent slide that had already occurred since February, said our sources, and some of the city's largest real-estate developers were on the danger list. That list included Olympia & York, Helmsley, Cadillac Fairview, Bramalea, and Dayline.

Interviews with leading New York brokers and senior officials in commercial-bank real-estate departments produced piquant confirmation of our last issue's story. It came in the pained undertones that accompanied the assurances that our intelligence could not be further from the truth of the matter.

"Harry Helmsley? Not Harry. He's not in any trouble. Harry is one of our best friends. He is one of our best customers," said a senior real-estate officer at Chase. "Of course Harry has been selling buildings, but every time someone sells buildings, they think he is in trouble. We're also the bankers for Olympia & York and they certainly are in no trouble. Helmsley and Olympia are two of the most knowledgeable developers in the country."

Asked about the lawsuit taken by a group of investors headed by LeClerq de Neuflize, charging Helmsley with heavy padding of expenses and failing to account for funds, the senior Chase official refused to comment, but added, "I assure you, Harry is in no trouble. Why, the Uris buildings he bought have turned into cash machines."

A senior broker at Cushman and Wakefield, one of the nation's largest brokers, was equally confident. "Harry Helmsley and Olympia & York are our customers. They are in top shape. I watched this market for 15 years, and there is no fundamental downturn coming up. Nothing like '69-'71 when there was a 30 to 40 percent fallout. Then '71-'74 was a disaster. The problem now is that the market just couldn't continue upsweeping like in '80-'81. The service industries like banks, advertising, and professional firms just can't pay the $60 and $65 a foot that was being asked on Park Avenue.

"Of course the banks have slowed down their leasing in the last six months, and we are all affected by the national recession. It may last for another 12 to 18 months, but then the market will firm up again.

"This is the best time for tenants to come into the market. They can get favorable workletters [alterations], free months, low escalators [escalator clauses], and other concessions. These are really more important than the price.

"Helmsley just can't go under." He paused. "Why if Harry went under, so would we."

Concessions or not, there is hardly a rush to rent New York office space. One real-estate consultant estimated that the dry-up in New York office leasing began as long ago as the first of the year, while a bank real-estate department put the date at five months ago. The noticeable crack began three months ago.

While most brokers denied the current 20 percent discounting, none of them wanted to talk about lease pricing. But add up the concessions and the marked shortening of leases, and the 20 percent decline is visible.

What will drive it down to the 30-40 percent collapse stage is that peculiarity inherent to all speculation: it can't go on forever.

The end-game

This speculation is not some sort of natural cycle, but is managed by those who control money flows. The crucial flow into the New York commercial real-estate market has been from foreigners—and three months ago one major group of foreign investors decided to pull out. They are reportedly going to stay out for three to five years—until the market has bottomed out, leading developers (whom they have selected in advance) are fleeced, and the banks, if still solvent, are so chary of real-estate investment that the foreign group represents the only money left in the market.

The de Neuflize lawsuit against Helmsley would tip off any intelligent investor that "the big boys" are out to tumble the market. De Neuflize is one of the oldest Geneva-based Swiss banking families.

Reached for comment on the potential for a real-estate shakeover by September, one London-based banker in New York dryly asked, "Why do you think the market will last till then?"