Repositioning Real Estate:  
*A Strategy for the New Economy*  

Excerpts from Prepared Remarks Presented by  

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Thank you for that kind introduction Jonathan.

It’s a special pleasure to welcome you all here today. We have a truly remarkable cast of speakers, and an agenda that’s designed to illuminate strategies for adapting to what is one of the toughest real estate markets in decades. In fact, this morning’s *New York Times* quotes Austan Goolsbee, chief of the White House Council of Economic Advisors, as saying that the economic hole we’ve had to dig ourselves out of is the worst since 1929.

As we all know, today’s market differs dramatically from that of recent boom years. Lines of credit are tighter. New construction has plummeted. Rents are lower. Vacancy rates are higher. Tenants are more demanding. Sustainability goals, too, are placing new demands on building owners and managers. Economic forecasts have been grim and uncertainties do exist. But – as we will learn today – so do opportunities.

Challenging conditions prevail all over the country. But in New York City – one of the premiere real estate markets in the world – the stakes are particularly high.

In this kind of market, with so little new construction, the bottom line is not just *how to compete*, but it’s, more narrowly, how to make existing assets more competitive.

Included with your agenda is a copy of an interesting article published in *The New York Times* last April on this very subject. It says,

> As commercial real estate development nearly comes to a halt in the economic downturn, some well-capitalized investors are focusing instead on sprucing up existing properties. The process has various names: retrofitting, renovating, repurposing, even repositioning . . . the underlying idea is to wring out more value at a time when rents will not support new construction.

The article goes on to report that the architectural firm of Kohn Pedersen Fox (KPF) has completed designs for dozens of rehabilitation, renovation, and expansion projects that – and I’ll quote again:
... may range from simply redesigning the lobby and upgrading elevators to stripping a building down to the frame and replacing almost everything but the foundation.

That’s quite a dramatic range of possibilities!

And here’s another market signal on this subject: one of the world’s leading real estate firms (CB Richard Ellis) has built an entire global practice around “asset repositioning.” Its web page on this subject opens with a flat statement:

Underutilized and surplus real estate assets represent untapped opportunities.

Tellingly, that web page links to another web page. It’s devoted to sustainability. It says,

... we believe strong support of environmental sustainability represents our greatest opportunity for leadership as a corporate citizen.

I fully endorse that statement. And I further believe that sustainability is evolving from being an occasion for “leadership” toward being what it should ultimately become: simply “business as usual.” That is, eventually, a firm won’t be a “leader” because it provides energy-efficient office space, any more than it’s a “leader” today because it provides air-conditioned office space.

In other words, energy efficiency and other sustainability features will just be the norm.

A historic shift away from a fossil-fuel-based economy is under way, make no mistake. So how do we accelerate it – and how can you profit from it?

Our primary focus this morning is on opportunities for boosting the performance of properties that have simply stalled out and can be modified to cut operating costs and boost market appeal. We’ll be hearing from industry change agents who are instrumental in redefining “business as usual.” They’ll share their insights into current market conditions; their strategies for increasing existing asset values; and information about incentives, tax credits, and financing that can be tapped to implement those strategies.

Opening our program is a change agent who has pursued a project of truly historic significance: a major sustainability retrofit of one of the most iconic buildings in the world, the Empire State Building. Among the many roles he plays, Anthony E. Malkin is president of Malkin Holdings LLC, a principal owner of the Empire State Building. Its renovation is a unique collaboration among his firm and the Clinton Climate Initiative, Johnson Controls, Jones Lang LaSalle, and the Rocky Mountain Institute, which spearheads energy efficiency and clean energy research and initiatives.

To put this project into perspective, I want to briefly mention some interesting facts about what is certainly New York’s signature skyscraper. When the Empire State Building was built, it was the tallest building in the world, breaking every record in the book. It represented the
culmination of the skyscraper boom of the 1920s. Site excavation began in January 1930. Construction was completed in 1931, during the depths of the Great Depression.

At 1,252 feet, it surpassed the Chrysler Building’s crown by 200 feet and the spire of the Manhattan Company Building at 40 Wall Street by more than 300 feet. It boasted 2.1 million square feet of rentable space compared to the 850,000 square feet of the Chrysler Building or the 1.2 million square feet of the city’s then next largest office edifice, the Equitable Building.

All this is to say that undertaking a retrofit of a building of such massive scale is a hugely ambitious undertaking.

Central to the Empire State Building project is energy efficiency. To a layperson, talk about energy efficiency and HVAC systems and retrofits may sound mundane. But when your annual energy bill is $11 million, the subject becomes quite interesting. Tony aims to significantly cut that bill and to make this fabled piece of real estate more competitive in the 21st century and a model of sustainability for other buildings around the world.

Lending resonance to this story is the fact that the Malkin firm, a prominent player in the industry, is a family firm that goes back four generations. It was founded in 1929. This means that its founder, Lawrence A. Wien, saw the Empire State Building being built. I am sure he’d be exceptionally proud to know that Tony is helping to give that building new life and new meaning.

The parallel here is dramatic: the Empire State Building was built during the Great Depression of the 20th century, and it rose as a symbol of hope for New York City’s – and the nation’s – technological progress and future prosperity. Its retrofit has been launched during a difficult economy – the worst since the Great Depression – and it represents a visionary commitment by Tony and his partners to the pursuit of a sustainable form of prosperity. And, it redefines corporate responsibility in the 21st century.

It is now my great pleasure, and honor, to welcome Anthony to the podium.

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**Closing Remarks**

I’d like to leave you all with an inspirational quotation in connection with building and sustainability from John Ruskin. Ruskin (1819-1900) as many of you know was a prominent thinker, English critic, essayist, and reformer. His writings, were extremely influential in the Victorian and Edwardian eras. A few years ago, a notebook from the 1930s that charts the construction of the Empire State Building was rediscovered. Its concluding section includes this quote from Ruskin:
Therefore, when we build, let us think that we build forever. Let it not be for present delight, nor for present use alone; let it be such work as our descendants will thank us for, and let us think, as we lay stone on stone, that a time is to come when those stones will be held sacred because our hands have touched them, and that men will say as they look upon the labour and wrought substance of them, "See! this our fathers did for us."

What we’ve learned today from our speakers and panelists, all of whom are visionary leaders in our industry, actually helps to set the stage for the Newman Institute’s next conference [Greening Modernism](#). It will explore how the powerful precepts of the 20th Century’s defining cultural movement can directly advance 21st-century sustainability goals as they apply to *existing* real estate assets. That event, which will be free of charge, will be held on December 9 at Baruch College.

Warmest thanks to all of you for your participation today. Our conference is now adjourned.

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