Man: Welcome to the REI Diamonds Show with Dan Breslin. Your source for real estate investment jewels of wisdom.

Dan Breslin: All right, Bob Knakal, welcome to the REI Diamond Show. How are you doing today?

Bob Knakal: Great, Dan, thanks so much for having me on.

Dan: Yeah, when the booking agents had gotten the request I said, "Oh, wow, this is cool." Bob Knakal just applied to be on the show. We're going to approve that one, and then they finally got our schedules to Massey, and here we are. So I was excited to have you on the show, but maybe for listeners who don't know the name, Bob Knakal, you could give a Reader's Digest version about who you are and the highlights of your career today.

Bob: Sure, absolutely. Well, Bob Knakal, I currently am the head of the New York Private Capital Group at JLL. I've been an investment sales broker in New York City for 40 years now. For 26 of those years, from 1988 to 2014, I owned and ran a company called Massey Knakal Realty Services. We were investment sales in New York. Co-Star started tracking the marketplace in 2001. And in 2001, we were surprised to see that we had sold more buildings than any other company. And from 2001 to 2014, the number two company in New York sold a little over 1300 buildings. Massey Knakal sold over 4000. So we lapped the field by more than three times. Sold the business to Cushman and Wakefield in 2014 for $100 million. And I was three and a half years at Cushman, five years now at JLL. I think Dan, the thing that I'm most proud about our firm was that number one, we focused on culture training servant leadership mentality. And that has very tangibly manifested itself. Today, in New York City, there are 29 investment sales brokerage companies or divisions of companies that are either owned by or run by people who learned the business at Massey Knakal. So the legacy is significant and something I'm very proud of. Last week, I closed transaction number 2321. It's about $22 billion worth of sales. And fortunately, even though I'm in year 40, I still love this business as much today as I did the day I started. And that's what keeps me going.

Dan: That is very cool. And you mentioned that number before we hit record. You mentioned it on air 2321, and I follow some of the content that you put out, and I'm amazed, Bob, at the granular detail in the numbers and the play-by-play. If you're talking about a specific deal, it's like, in this year we did this, and in this year we did this other thing, and very, very specific and detailed with the numbers around the size of your market, et cetera. We were talking about being an expert. And maybe you could weave in your attention to detail, probably going above and beyond in effort, what the competition did throughout your career to find the details, know the market, become the expert, and maybe you could tie that in with the Map Room, talk about that.

Bob: Sure, a lot there. I'll say that, as a broker I think the best way to differentiate yourself is through becoming an expert in a specific niche of the market. Clearly, that's a lot easier in a larger dense market than in smaller tertiary markets, but you need to be an expert. Know something better than anybody else. Know how many buildings there are in that particular sub-market, what the average turnover rate is, what the prices are, who's buying, who's selling comparable sales history. And as a broker, the number one question that you're going to be asked is, how's the market? Over 99% of brokers will answer that question with adjectives. Anybody can answer with adjectives. I try to always answer with statistics, and that shows you have a really good grasp of the market. Again, differentiating yourself shows that you're an expert and that differentiation leads to a competitive advantage, and that's something that we're all striving for. I think that's, whether you're a broker or a principal looking to buy property, or a banker or a lawyer, you want to demonstrate that you have expertise in the area that you spend your time working in. And so that's something that is very, very important. When I talk about the Manhattan market, for instance, when I tell people that, South of 96th Street, there are 27,649 buildings, and the average turnover rate of that stock is 2.6% in the average year over 39 years. Clearly, I understand the market and I can talk about different sectors of the market, different neighborhoods, different product types, and know what the turnover rate was. I know the all-time low turnover rate was 1.2% in 1990, and the high was in 2012 at 4.7%.

The things like that, just understanding the market is a way to demonstrate a capable grasp of the subject matter, et cetera. And I also think that you want to create your own proprietary data sets. Go create your own. Don't rely on third-party aggregators. Anyone can pull a report from a third-party aggregator, and create your information. And you mentioned the Map Room, and I've gotten a lot of traction on social media about the Map Room. The Map Room really came out of a frustration I had with understanding what the development pipeline was for different product types. In Manhattan, every residential firm produces a report on condominium construction and the condo pipeline, but the numbers vary very significantly. And virtually nothing on rental apartment construction, hotels, office buildings, et cetera. I've wanted for years to get out and actually do a physical count of the buildings under construction. Never had time to do it. During the pandemic, the streets were empty, the stores were closed, and there were no cars on the street. It was a perfect time to get out and do this. So I went out, and spent about 220 hours in the field over a four-month period. I looked at every single building under construction, potential development sites, sites that had been demolished, and potential assemblage sites. I color-coded them on maps. I've taped all those maps together. Now, in the Map Room, I have a map that's 24 feet long and 10 feet wide with literally every building under construction highlighted on it, or potential development sites. Since we went out and did the fieldwork in 2020, we've tracked every demolition permit, foundation permit, and construction permit. So we have each of those food groups nailed down to the square inch in terms of what's under construction, who's building them, who's financing them, and that has become a data set that no one else has. It's a big competitive advantage when we're selling land in the city. And that's the thing that you want. You want to have something that other folks don't have. And that gives you that ability to demonstrate how different you are than other folks.

Dan: Yeah, that's amazing. So you're talking about tracking the development with great detail. Of the 2321 deals, are they predominantly going to be development sites? Is that a 50-50 mix? What mix, maybe was it through the career, and what mix maybe is that today, Bob?

Bob: Yeah. Well, interestingly, the world has changed significantly over the years. And just to illustrate that, when I was sitting at my desk in 1984 when I started, there was no computer, no fax machine, no cell phone. So the world has changed quite a bit. And back in those days when we started we worked on a geographic orientation. So we picked a neighborhood called "every owner on every block," and tried to sell everything in that territory, whether it was an apartment building, an office building, a retail property, mixed-use, medical land, and what have you. So for the majority of my career, I've been a generalist. So if you look at what I've sold, it probably is highly correlated to the distribution of property types within the city itself. So if 68% of the buildings in New York are apartment buildings, probably 68% of my transactions have been apartment houses. In recent years, a big reason why the geographic orientation worked so well back then is that the amount and quality of publicly available data was very poor. It wasn't that much available. It was very inaccurate. Today, publicly available information is amazing. You get somebody's cell number, their home address, their shoe size and what have you. So today, I think that product specialization is much more important. So I've tried to whittle down most of what I'm working on to land transactions and multifamily in the city. I have a great team of folks around me that, that work on the other property types that I happen to be involved in.

Dan: Nice detailed answer there. So we're talking about the product type being land, it is December 28, 2023. As we record this, Bob, and for the last year and a half, I don't have statistics to back it up, but I'm going to say my gut feeling anecdotally is that the development cycle is against us right now. Maybe you could take us into New York City and give us the overview of how the market has shifted and moved in the last two to three years for context, maybe where it is at the moment, and maybe where you see it going in the next 12 months.

Bob: Sure. Well, let me give you, I think it's always good to have some relative perspective because numbers themselves don't mean anything unless you look at those numbers in relation to previous numbers. So if I tell you that 2638 sold last year without historical context, that doesn't really mean anything. So let's give some historical context. The peak of this cycle clearly was all the way back in 2014 and 2015. In 2014, there were 5534 buildings sold in New York City, which was an all-time record by more than 10%. In 2015, we had 80.1 billion in investment sales, and dollar volume, also an all-time record. We noticed that the bull market ended in the first couple of weeks of October of 2015. And from October of 2015 through February of 2020, the dollar volume of sales dropped by 56%. The number of properties sold, dropped by 54%. Values were down about 12% over that period of time, March of 2020. And COVID comes along which converts this mostly volume correction into a value correction. That diminution value is much more acute in Manhattan than it was in the outer boroughs, which is always the case in good times, things are disproportionately good in Manhattan, and the bad times are disproportionately bad in Manhattan. But things were bottomed out in 2020. There was also an inflection point at the beginning of April of 2021 when the first quarter reports came out from all of the residential firms showing upward pressure on residential rents for the first time in years good condo absorption. And I had several private equity shops call me during that first week saying, "Hey, we've been on the sidelines. We want to get back into the market. Who's developing, who's buying, where can we deploy capital?" And so we had a break from the correction in investment sales during the second half of 2021 and the first half of 2022. But then March of 2022, the Fed started raising interest rates that didn't really start to impact the real estate market until August or September. But then we started to see rates increase significantly spreads from lenders ballooned. And that exerted downward pressure on values. We entered another correction in the market. So today, I think that we are in yet another correction. This correction is behaving very differently from past corrections. Past corrections being the SNL crisis in early 90s, the recession of the early 2000s, and GFC 2008-2009, where everything was going down.

And just to varying degrees, I think today what we're seeing, two big differences are that each product type is behaving autonomously from the others. I would argue today that the retail sector in New York is on the upswing. Multifamily still has robust demand. Yes, cap rates are up because lending rates are up. But there's good demand in that sector. And at the opposite end of the spectrum, you have Class B and C offices, which probably will need another two or three years to recover. So different product types react differently and the other big difference is lender behavior. SNL crisis lenders went through the two or three-year foreclosure process, and took title-hired brokers to sell those properties. Early 2000s, GFC lenders didn't want to go through that two or three-year foreclosure process. So they hired brokers to sell notes. This time around, they're being very covert about what they're doing. Only a small slice of the market is being handled by brokers. A lot of the lenders are doing transactions principle to principle, mainly because I think they don't want too many people looking under the hood and seeing what's really under there. So those are the two biggest differences I think today versus what we've seen in the past is that product-type sectors are performing a little bit independently from each other. And lender behavior is very, very different.

Dan: Yeah, in my city, I appreciate that detailed answer, great context. Better answer than the question that I posited there to give us the 2014 beginning. I notice in Chicago, I do not track the permits probably as tightly as you do, but I do pay somewhat attention to it, and I'm surprised because we hear things in the headlines, 40%-50%, 30%-40% occupancy office in downtown Chicago. And yet they've broken ground. I don't know, a dozen developments that were noteworthy in the last year or two years. And I thought, "Wow, nobody could be possibly bringing anything out of the ground." This comes from my single-family perspective. So I'm not immune to interest rates, but they're certainly going to affect us a lot differently with the size of our transactions being $100 to $700,000, let's say, than they're going to affect somebody who's building something at $60, $70, $80, and $100 million dollars in construction costs. How, if at all, has development slowed, sped up, or continued at a pace in the last year or two since March 2022, when the interest rates kicked up? Has anyone brought projects out of the ground in New York, Bob?

Bob: Yeah, they are, Dan. I'll say, again you have to look at each sector differently. So I would say if you look at the office sector and to hear that new office buildings are being built is not surprising at all because there is a huge difference between class A new construction and everything else. Class A new construction seems to be getting good tenant demand. Those projects are doing relatively well. And in Manhattan today, South of 96th Street, there's 47 office buildings that are under construction or planned. So a pretty robust pipeline of new offices. And the demand for that new office is there. It's the Class B and C stock that is facing challenges. But if you look at the land market in New York today, unfortunately, I can only speak to New York because that's where I do all my work. If you look at the condo land market that is still performing relatively well, values are down 25% to 30% just in the last 16 months because of the cost of construction loans today, very, very expensive. So that exerted downward pressure on value. But there are still some sellers selling and buyers buying at these reduced prices. If you look at the land market for residential rental, it is essentially dried up. There's a huge air bubble in that pipeline because we do not have a tax abatement program in effect. And essentially, if I gave you the land for nothing, it doesn't make economic sense to build based on the real estate tax structure that exists in New York. So our politicians have done a great job of exerting upward pressure on rents, making New York City less affordable for everybody because there's no new supply.

They've constrained supply. Every single piece of legislation that has been implemented or ignored since 2018 has constricted supply exerted upward pressure on rents and made rents less affordable for people who want to live in New York. Completely, 100% on the backs of the politicians. So if you live in New York and you're paying too much for rent, blame your local politician. It's completely their fault. If you look at the hotel market, the hotel market has changed dramatically over the past just a few months. We have a stock of about 120,000 hotel rooms in New York. About 30,000 of them are no longer hotel rooms, 14,000 have been converted to alternative uses, and 16,000 are occupied by migrants. So that has exerted upward pressure on ADRs, and occupancies. And I think that while no one really has looked at hotel land for a while, we're starting to see some transactions happen, a lot of folks looking at hotel land. So again, every product sector is performing a little differently based on unique idiosyncrasies within that sector itself.

Dan: It sounds like land deals for development are still transacting and closing then. Since 2022, is the volume down, but you still have something going on, right?

Bob: Yeah, volume is significantly down, but the fact is that for sectors, particularly the condo sector there is still trading going on. It's just that these reduced prices are because of the cost of borrowing.

Dan: Yeah, when I look at development from the outside, I mean, like 99% of our transaction volume is existing stock that we deal with in our single-family business. And I look at people who build new construction, even in single-family, I would assume it's the same thing as I look at condos, and I believe it's the same as when I look at class-A office buildings where the developer comes up with this product that it's about superior design, the functionality, just wanting to be there. There's almost no comp, and there's no comparable price oftentimes to pin that to if I was starting the project. Yet the developer has this vision to create something magnificent that didn't exist before. And the price, quite frankly, in my opinion from the outside, the price looks magnificent too. I can't believe some of the prices per square foot that I've read for in New York City and Chicago, the Class A offices in Fulton Market in the Chicago area, are beautiful buildings that are getting very high rents for them, leaving the B and C to fall off, leaving the existing to be actually anchored by the surrounding comparable sales. So there's this element of design that developers seem to grasp that doesn't really fall into my purview as to single family. Do you know of, or have any examples of prolific visionary developments you might've been a part of that might illustrate that even better?

Bob: Well, we've done a lot of very large development site sales that have transformed the skyline. There are unique idiosyncrasies of each of those sites that have done very well for a variety of reasons. I'm working on a transaction now in Brooklyn and Fort Green, where the Brooklyn Hospital is in the process of rezoning its campus. We expect to get about 4 million buildable feet there working on a series of ground leases for six different pads on which buildings will be built. And there is always interest in land and development in the city, and I think that will always be the case.

Dan: So you're talking about Brooklyn, it's currently a hospital and there's a rezoning. How involved or proactive are you with that seller in that rezoning process and bringing division to them? Did they hatch that plan all on their own and then they called Bob and said, "Hey, Bob, we want you to sell this," Or did you call them and say, "Hey, rezone this..."

Bob: We working at the hospital for many years. Brooklyn Hospital is a great organization in New York City. They've been a client for I guess going on 10 years now. And we sold one site for them and then developed this plan work. There's a number of its very, very complicated to do rezoning. There are a number of professionals that are required and need to be involved. So we're playing only a very small role in that process. But it's a multi-year process to get a site rezoned in New York. Very expensive, and very labor intensive. And you need folks who really, really understand that business well to do it.

Dan: And when you say that you had a small role, is that like the mustard seed that creates the tree? I mean, the dirt played a role, the sun, but it started with the seed, right? Is this Bob Knakal's competitive edge to spot value far in advance of actually the listing and the property going on the market?

Bob: No, I think the main value that I think I bring to the table, and my value proposition from the very beginning has been very, very simple. Only sell properties, only represent sellers, only work on exclusives, and only work in the neighborhoods that I know. I'm very agnostic as to who the buyer is. All I've ever tried to do my entire career is maximize the price that my client gets. If there's any secret sauce, it's trying to look at a property, figure out how to maximize its value, either by getting a user buyer to buy figuring out how to assemble additional properties to create a bigger site, acquiring air rights, take advantage of bonuses that are available in midtown Manhattan. For instance, understanding the Midtown East rezoning and how you can take advantage of the various programs that exist. In Hudson Yards, there are two very significant bonus programs, the district improvement bonus and the Eastern Rail yards bonus both of which can add significantly to the density you can have on a site. Understanding all of these things and being able to articulate that to a potential seller and have them understand that, "Hey, I'm in your corner. I don't care who the buyer is, I'm just going to maximize the price that you get. And here are the different ways that we can do that." I think that's probably why folks hire me, is that they want to take advantage of that knowledge to maximize what they get. And I tell people, "You know if you sell your property and you don't do it properly, there are no do-overs. You don't get the property back and can sell it again. So do it right the first time."

Dan: That's right. I imagine you have the phone number of the zoning attorney, the phone number of the engineer, and the phone number of the architect that might help us maximize the value of our fee simple interest here, right?

Bob: Yeah, putting together a good team that can look at all the issues. There are so many things that are involved in land sales in New York. You have environmental issues, you have subterranean issues. Is there a subway line under the property? How deep is that subway line? What do you have to do when building the new building to accommodate that? The zoning resolution, in New York is really fortunate, and I'm fortunate as a broker in New York that the zoning jurisdiction is as of right. So, you know what you can build, how much you can build and you know the shape that building can have. But even in the context of it being an as-of-right jurisdiction, the zoning resolution is thousands of pages. And even the people who are the most expert at it can't answer all questions off the top of their head without doing some research, so it's very complicated. You need a really good team. You need to look at all these different issues and do as much homework. Buyers tend to do due diligence when they're negotiating a contract. But as a broker, before you go to market, you have to do due diligence. You have to get what we call a massing study done to show if are there setbacks required. How high do you have to go up with the street wall? So many different things come into play that you need to make sure you get in front of so that nothing comes up at the last minute that creates an issue.

Dan: Can we pull apart the as-of-right zoning jurisdiction? So when we get a project approved in other parts of the country, we have zoning, but then we have to have the project entitled by the city, the township, et cetera. So just because it's zoned for eight units does not mean the city's going to give us the entitlements for the eight units. Is that different when we're dealing with an as-of-right? Is it like I have an as-of-right zoning for eight units? Is it like the city and no neighborhood association's able to push back and stop me from building the eight that I have a right to build?

Bob: Yeah. No, the as of right jurisdiction that basically means you don't have to go through an entitlement program.

Dan: Interesting.

Bob: You know how much you can build. There are three main things within the zoning code. One, what can the building be? Can it be residential? Can it be commercial? Can it be a hotel office? What can the uses within that building be? Zoning tells you, how much land can you have. We have something called the Florida area ratio, which tells you for every square foot of land that you have, how many square feet of building can you build? And those FAR is ranges in New York City from 0.25 to 33. So like in Hudson Yards, for instance, there are some zoning districts that have 33 FAR for every square foot of land you could build 33 feet of building. And then the contextual aspects of the zoning, which tell you about your setbacks and sky plane exposures the shape the building can have, and the maximum zoning envelope. Can you put a lot of air rights into that site, or can you not put more air rights into the site? So these things, but if you are willing to build according to the current as of right zoning, all you have to do is get your plans approved by the city. There's no question about whether the site will be entitled or not.

Dan: Okay. So the plan approval process, how often does that kill the project that a developer is bringing to the table?

Bob: No, often the New York City buildings department will look at the plans and want some changes. There are all kinds of rules, again, thousands of pages telling you how far your windows have to be from a neighboring property and all that stuff, and the different room sizes, and how many windows per bedroom you need to have and all that stuff. And so, DOB will check to make sure that you are complying with code, but they're not going to say, "Hey, you can't build a residential building in this district," when clearly it's as of right. You can build that residential building in that area.

Dan: Interesting.

Bob: That's why our typical land deals, we sign a contract with no contingencies as a hard contract right away. And that transaction will close anywhere from 30 to 90 days.

Dan: That means the buyer is signing a no-contingencies contract for the seller.

Bob: Correct.

Dan: Is that how the whole market of New York City operates or is that something you're really good at getting your buyer to participate?

Bob: No, highly unusual for a buyer to get post-contract due diligence.

Dan: Okay.

Bob: In most transactions, the buyers do their due diligence simultaneously with negotiating the sale contract.

Dan: Interesting. What type of cost would be associated with that? I mean, you said you focused your career on the seller side, it makes total sense. You have a much stronger position if the seller is under contract, but on the buy side, are you dealing directly with that buyer, or are there other agents or brokers representing that buyer?

Bob: Yeah, most of the time we're dealing with the buyer directly. And during the due diligence, the buyer is going to obviously check the title but for a development site, they're probably going to have their own massing study done, or confirm that the massing study that was done for the marketing materials is correct. They're going to verify everything make sure that they can build what they think they're going to build, and talk to their lenders. They're not going to have a financing commitment in all likelihood, but they'll have a good sense of what type of financing they can get. But that is one of the beauties of the New York market is that folks will spend, sometimes it might be $50 or $100,000 without even having the deal under contract.

Dan: Wow.

Bob: Then they sign the contract. That's a non-refundable deposit in a relatively short-term closing.

Dan: From the time we officially consider your listing to go on the market, I don't know if that includes CoStar listings and a full public presentation or just a quiet, direct-to-principle strategy, do you publicly market these or is it mostly going to be...?

Bob: Oh, always.

Dan: Okay.

Bob: In almost every case, we are going out as broadly as possible. Again, with the theory that you can only sell once you want to get out to the widest possible audience, get as many people interested as possible, and get as many bids as you possibly can. There are times we send out multiple contracts to more than one buyer, and that creates more leverage for the seller. And that's a very tough spot for a buyer to be in. But the market's generally competitive enough that you're able to do that as a seller, and that gives you great leverage and you get better terms and conditions in the contract when you have that thing going on.

Dan: What would you consider a quick listing is now officially live? What's a quick cycle period on that accepting contract as to when the seller signs that contract with the buyer? And then what is the timeline from when the contract is signed between seller and buyer to when the close of escrow occurs? What would be an example of really fast, probably average, and then maybe on the slower side as the market's shifting?

Bob: Yeah, I mean, it really varies. I would say on average, it's probably a six-month period from start to closing. That generally consists of about two to three weeks to get the marketing materials ready. We launch and go live with the listing. We probably have a good idea of what the market is saying, have a bunch of bids within 45 to 60 days, it takes about 30 days to negotiate the contract, and have the buyer do their due diligence as they're negotiating the contract. Probably, 25% of our transactions close in 30 days or less when the buyer is just going to close all equity without financing. If they're going to need financing, that's 60 to 90 days to close. But it happens relatively quickly. I have done one deal, the quickest deal I ever did. We launched and I had the deal under contract the next day. And that deal closed 30 days later. So that was about a 32-day period from start to finish. And then there have been listings that I've had that we've had for five or six years, it's taken to get them done. So opposite ends of the spectrum, but on average, it's probably about six months from start to finish.

Dan: Okay. Why did you guys accept the contract in one day on the market? Why wasn't there some other buffering and obtaining of other bids in that example, Bob?

Bob: Well, we had what we thought was the perfect buyer. This was back in the mid-80s, I was representing The Cromwell Group that had done the LBO on Kinney Parking. They had a parking lot on 253 West 47th Street. See, I don't remember what I had for breakfast this morning, but I can remember [crosstalk]. It was a 50x100 foot parking lot, although the district was a 10 FAR district, Kinney had sold off 8 FAR of the air rights to a neighboring property. So they had 2 FAR left. I immediately called up Larry Friedland, who's a buyer of retail properties. This was a perfect parking lot in which to build a two-story retail building. I talked to him at 10 o'clock. He said, "I'm going to go take a look at it right now." He called me later and said, "Bob, I'm standing in front of it. I want it. What's the price?" I called the seller. I said, "What's the price you'd take today? Gave me the number, and gave it to Larry. He said, "Done, I'll take it." And he said, "Who's the seller's attorney?" I said, at the time, one of the big law firms in New York was a firm called Finley Kumble. He said, "That's my law firm." He said, "Sit tight." And they literally got the contract signed that day.

Dan: Wow.

Bob: It's just a very unusual confluence of circumstances. It was a great deal for Kinney, a great deal for the Friedland. They built a little two-story retail building there, and that was the quickest one of the 2300 deals. But that one was very fondly remembered.

Dan: Would you run that one the same way if those circumstances appeared here 20 or 30 years later, I guess?

Bob: It depends. Fortunately, the Kinney folks or the Cromwell folks had a really good understanding of what the values were, and we knew what we had to achieve as part of our sales process. The Cromwell LBO of Kinney was a $60 million transaction done back in the heyday of LBOs with $30 million of short-term financing and $30 million of long-term financing. So we had to retire that $30 million of short-term financing in less than a year. So when we had bids that were within the strike zone, they just wanted a strike. If that was a private seller who had the luxury of time probably would've said, "Hey, if we got a full-price bid in the first few hours, let's run this out and see what happens." But under the circumstances, it was the right move for the seller.

Dan: That makes sense. We threw around some terms for floor area ratio 10 to 33. What are the driving metrics, if you will, of a development site? How is a value calculated there? Because I think it's a somewhat opaque market because you need some depth of knowledge around these thousands and thousands of pages of zoning. I assume that's probably enough without having the thousands and thousands of pages of the building department's rules also. So what would be the simplified version of the metrics that drive a development site's value, Bob?

Bob: Yeah. Well, when we look at the sites in New York, we're always looking, first thing, you have to look at what's the tenancy. Are there any rent-regulated tenants in the property, meaning rent-controlled or rent-stabilized? The protections that tenants have in New York are almost such that they have more rights than the property owner does. We just sold a site on the Upper East Side where the developer had to pay two rent-stabilized tenants, a total of $10 million to get out of their crappy little one-bedroom apartments.

Dan: Wow.

Bob: The cost of doing business sometimes. So you have to look at tenancy number one. After tenancy is done, you look at, are there any potential environmental problems. Did the seller have an environmental test? Is any environmental testing done?

Bob: Ideally, you'd love to have geotechnical work done to determine what the subsoil conditions are. In some places, the water table is very high. In some places, it's not. Most of Manhattan is built on granite. It's called Manhattan shifts. That stuff is solid as a rock, no pun intended or pun intended. And that's why you can build these massive buildings on relatively small pieces of land because you're pouring your footings into a granite bed. But there are streams running under Manhattan. So you have to look at sub-soil conditions. You need to look at how you can expand the site. Everybody wants to get sites that are as big as possible. I mean, I mentioned this 50x100 foot lot, 50x100 is a pretty decent-sized lot in Manhattan, and in most places that's really small. A generous-sized site is a 100x100. So you want to look at neighbors. Are there neighbors that can be included in the development side? Are there air rights you can benefit from? Are there bonus programs that the buyer can take advantage of? So you have to look at all of these things to determine how to best position the asset to achieve the highest possible price.

Dan: Are you guys using any kind of, I don't know, the calculation for like a buildable square foot, let's say, like you do all the math according to the rules, and then the market is set because people are paying $150 a square foot for the land cost? Is there anything like that reference point?

Bob: Yeah, absolutely. The way we value land is based on the per buildable foot. And that's because again, the as of right jurisdiction allows you to know exactly how many square feet you can build absent the addition of air rights or bonuses, et cetera. But those all can be calculated. But everything is done on a price-per-square-foot basis. And one of the things that has emanated from the map room is that we've looked at land so intently. If you ask most folks, what was the average price of land in Manhattan last year? They'll tell you, "Well, it was $422 a foot." And to me, blending all the product types together is like saying last year the average price of a peach, a bowling ball, and a 2x4 was $11.25 completely meaningless. What was land selling for for rental construction? What about condos, hotels, and offices? They all operate very differently. So we have disaggregated the land sale data into the $5 buckets and have that data going all the way back to 1984. So we're showing long-term historical references of what the average prices per buildable square foot had been.

Dan: Are you willing to share what they are currently in the last year?

Bob: We're still working on 2023, we're verifying a couple of sales that just occurred. And shortly after the first of the year, I'll have that data for 2023 and we'll be publishing it.

Dan: Nice. The amount of work, I mean, how many properties is that, if you had to guess?

Bob: In that study, going back to 1984?

Dan: For 2023 alone, that you guys are...?

Bob: Oh, 2023. I think we're going to end up somewhere around 55 to 60 development site sales.

Dan: Transactions.

Bob: Yep.

Dan: Mind-blowing. One of the things I have found a lot of value in, Bob, we're deal-makers at Diamond Equity. We have to do the hard work of many phone calls that often go unreturned. And these are people who have already called in and said, "Hey, we want to sell our house." But it takes sometimes a year, two years, or three years of what probably amounts to cold calling at a point for the guys on my team to finally break through and get the results that we need, which is a deal that we can make with some economic sense and profit attached to it. I have gotten a lot of value from your Twitter posts, which are very detailed examples, photos, and timelines, and one of the things I've observed from several of those posts is the tenacity of, I don't know, the call cycle or the long-term mindset around how the business is done. And I would say that anyone who wants to be successful in deal-making, whether that's a broker or whether that's buyer, has to become good at that skillset in order to do that. And one of the addresses I wrote down was 333 to 339 East 62nd Street. Does that address ring a bell for you, Bob?

Bob: Sure. That was the small development site that we sold.

Dan: Mind giving us a couple of details there if you would?

Bob: Sure. If it's 333, I think that was the site that we sold for the Catholic Archdiocese. It was a little rectory that they had, there were only a couple of folks living in it, and then a rare side yard for that property.

Dan: Okay.

Bob: It was in a very unusual zoning district, a C8 district. If you read the zoning resolution, it will tell you that you could have slaughterhouses there, auto mechanic places, and very archaic zoning. But the city was allowing residential construction in that district. The site was sold to a developer who built a little apartment house there. So that was the great one. The archdiocese been a great client for a long time sold a lot of properties for them, and that was a sale that ended very well for everyone.

Dan: I think you started working on that project, if I remember right, maybe in 1988, and then in 1990, the new property manager came in, and then you might have mentioned this address at some point there. Right, this is like 1988, 1990, 1992, somewhere in there. But then when did this listing actually go live, and when did it settle up?

Bob: Yeah, I don't remember exactly when, but many years later, Dan, that's par for the course. Sometimes very rare, you call somebody for the first time and they say, "Yeah, I want to transact. Come on over, bring a listing agreement with you." That's what I love about the business. And I guess the same way that your folks are prospecting, looking for folks who want to sell. You have to just do it over and over again. A lot of what we do is not glamorous, not exciting. It's we call it blocking and tackling very basic stuff. But the secret isn't having the discipline to do it day after day, week after week, month after month, year after year. In my case, decade after decade. But you just have to keep hammering away and there are still, to this day, there are people. I spoke to for the first time in the 80s who still own their property and now are deciding to sell it.

Dan: Wow.

Bob: If you look at that stat I threw out earlier where the average turnover rate in Manhattan is

2.6% of the total stock. One of the things that stat tells you is that on average, when someone buys a property in Manhattan, they own it for 40 years before they sell it.

Dan: Wow.

Bob: That means half the properties are owned for more than 40 years. So sometimes it takes patience and continued follow up with people to keep that relationship fresh and hopefully be top of mind when that owner decides they need to sell.

Dan: Do you have a story about Harry Macklowe? Maybe you could tell us who he is.

Bob: Yeah, sure. Well, Harry is a Titan of New York Real Estate. Started out as an office leasing broker and has turned into one of the great investors in New York City real estate history multi-billionaire. When I started as a new broker in the business Harry owned a small building just West of 2nd Avenue on the south side of East 60th Street, that was in my territory. I called him for two and a half years without any callback. And back in those days, we had paper catalogs and wrote left messages, left messages, left messages, two and a half years worth of that. Finally, I tried calling him one night at his office around seven o'clock, but his assistant had left, so he picked up the phone. I said, "Hey, Mr. Macklowe, Bob Knakal from CB Commercial or Coldwell Banker back in those days. And he is like, "Yeah, I know who you are. You leave messages for me all the time. What do you want?" That was the start of the relationship. I forget, I've done 22 or 23 deals with Harry, probably, well over $350 million worth of transactions over the years. He's now a good friend and a client. One of the best joke tellers in the real estate industry, you have to add, but it's persistence. You have to just keep at it and look for a way to get in there, create a relationship, and deliver something of value when you talk to folks. That's a big reason why expertise is so important so that you can deliver something of value when you talk to clients. But it's a blocking and tackling business and discipline is one of the three key traits that I see in folks who rise to the top of this industry.

Dan: I think you mentioned them, but what are the first two?

Bob: First two, number one, being an expert. Be an expert at something, know it backward, forwards, and inside out. And that enables you to differentiate yourself. You add value every time you talk to a client, you can give them something of value. And the second thing is passion. You have to have passion for the business. You have to love doing it. No matter how good you are at it. You're going to have tough times. You're going to have a tough market. You're going to have periods that are challenging. If you have that passion, it'll drive you through that challenging time and get you out on the other side. If you have the discipline to keep doing those fundamental things, the combination of those three factors leads to if you have those. That's a very high probability of success.

Dan: Do you happen to remember what else you said to Harry? So he calls, you're probably in a state of shock after two and a half years. "Oh my God, he answered." What was the thing of value? What interesting thing did you have to keep him on the phone?

Bob: Well, when we were making our prospecting calls back in those days, and still to this day, I have a topic, a talking point for that week. Maybe it's referencing the market report we just did, or maybe it's talking about a sale we just closed, or maybe it's talking about a new law that was implemented that may affect property values, something. There was always a talking point that we would hammer for the week, no matter who we were talking to. So I probably talked to him about whatever happened to be the talking point for that week when I got him on the phone.

Dan: Nice. So, Bob, as we wrap up here, are there any books that maybe you have given to other people who wanted to become successful, say in real estate, or maybe that you read that you would deem transformational? What would be one, two, or maybe three books that listeners might want to go check out?

Bob: Dan, I think that there are so many great books that give insight and help to folks who want to be on the transactional side of the real estate business. I have a list of them, and if anyone would like to get that list, just email me at bob.knakal@jll.com. I'll tell you some of them. The general theme throughout is a theme that I think should be a curriculum in college, because I think it's so much more beneficial to folks than a lot of what's taught in college. But the subjects are selling human behavior, likeability, persuasion, things that will help you build relationships, get along with people, connect with people, understanding why people do what they do, and how to use your time more effectively. As a broker, the two main assets we have are our knowledge and our time. You're constantly growing your knowledge base. You can't make more time, so you have to use time as effectively and efficiently as you can. I'd say, some of the standout books, and there are so many of them. I'm reluctant to almost say, but Jim Collins, "Good to Great" is a great one. Collins's main thesis in the book is that the main difference between great companies and good companies is that great companies figure out what they can or want to do better than anybody else in the world. And every decision they make, every initiative that they begin is all centered around that one thesis or the hedgehog concept as he refers to it. I am reading a great series of books now by Dr. Benjamin Hardy and Dan Sullivan. "10x Is Easier Than 2x," "The Gap and The Gain," "Who Not How," These are awesome books, but I have a whole list of them that are fantastic. Bob Cialdini's writings, the guy who's the head of the psych department at the University of Arizona, is probably the leading authority on persuasion in the country. There's a lot of great stuff out there. I'm happy to share the list with any of your listeners.

Dan: All right. Appreciate that. So the crown jewel of wisdom, Bob, if you could go back to, I think it was 1984, you said, when you were starting your career, knowing everything that you know now, what would be the crown jewel of wisdom you would go back and share with your younger self?

Bob: No, just always do the right thing. Realize that in business, it's a marathon, not a sprint. Don't take shortcuts. Do the right thing. Pretend your clients are your family and you typically don't make mistakes if you do that. And just realize that it's a grind. There are no shortcuts. You have to do the work and you have to be prepared to do it over and over again. If you have that mentality, then the real estate business is one of the purest forms of meritocracy that exists. You get out of it what you put into it. If you understand the fundamentals, you do the right thing, and you work really hard and you do things consistently, is just really an unlimited business. I totally love it. I think it's the greatest business in the world and I feel so lucky that I get to do this every day.

Dan: Bob, what is the kindest thing that anyone has ever done for you?

Bob: Kindest thing anybody ever did for me by far and talking professionally. A lot of folks have done some wonderful things for me personally. But professionally, during the savings and loan crisis Massey Knakal was a couple of years old. Our burn rate was $15,000 a month. We had $15,000 left in the bank, and we had no deals under contract, and we had to figure out what to do. Do we spend all the money on next month's bills and see what happens? Do we spend $5000 a month on the most important ones to keep the lights and the phones on? And we went out and got a bunch of credit cards, got $60,000 of credit cards, and ran those balances up to keep the company running. About a year later we had the lines completely maxed out and had no money. Went to a client of ours who was in the Forbes 400 at that time, I asked for a $75,000 loan. He said he would give it to us, but he wanted half the stock in the business. We were so dejected. We went to Paul Massey's, stepfather-in-law who ran a mortgage brokerage business out in New Jersey. Asked him for the $75,000 and said we'd give him 25% of the stock in the business. He said, "Guys, I'm going to give you the $75,000. I don't want the stock in the business because someday you're going to be very successful and you're going to be unhappy that you gave me that stock. So Jack Holler gave us that $75,000 loan which was $75 million.

Dan: Might as well have been at that time, right?

Bob: You know what? I think that not taking the stock, I have to say, I think that was amongst the kindest thing that anyone ever did for me.

Dan: Wow. That is remarkable. Bob, I follow you on Twitter. I suggest if anyone's listening and wants to go on Twitter, the content that you put out there is very educational and interesting. But are there any other ways people might get ahold of you?

Bob: Yeah, sure. I'm on LinkedIn also. I think Instagram, Facebook, and my social media team is great. They have me on a number of different platforms. And interestingly the content that I write goes on all the platforms, but each conversation goes in a different direction based upon comments and questions people have. So it is a little bit different on each platform, although we start from the same place. Again, you can always get me via email, at bob.knakal@jll.com, and happy to answer any questions that you might have.

Dan: That is spelled Bob Knakal.

Bob: Yep, absolutely. With the dot in the middle, bob.knakal@jll.com.

Dan: All right. Bob, I got like four pages of notes. I had a blast here. Wonderful time. I really appreciate you coming on the show.

Bob: Yeah, Dan, it was great to be with you. And wish everybody a happy, healthy, and prosperous 2024.

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