COMMERCIAL OBSERVER

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Mik or Treat!

'I always like to buy when there's fear in the market,' says Miki Naftali. No wonder business is booming.

Plaza Sweet

From New Jersey townhouses to the Plaza Hotel, Miki Naftali is Gotham's luxe developer par excellence

By Mack Burke | Photography by Sasha Maslov

About 20 years ago, Miki Naftali nearly gave up on New York.

He left a high-flying role in commercial real estate investment and development in Israel to take on New York with Elad Properties, then a small investor and developer working out of two rooms in Fort Lee, N.J. But he found himself wanting.

"It was a position in a small company," he said. "I didn't have any relationships — I didn't know any brokers or banks, or anybody. At the time, they had a small project in Neptune, N.J., of all places; a bunch of townhomes they built. I said to myself, *'This is not what I signed up for.'* I had come from Israel, where my last project was one of the tallest in [the country], a 44-story tower and mixed-use project, to here, where it was townhomes in Neptune."

Naftali, 58, said he had "two choices: I'm going back to Israel, or I'm trying to do something here — but to do something here is in Manhattan." After all, he and his wife had initially given the lifespan of their time in the city just a two-year expiration, "and then we'd go back to Israel."

Instead, he would go on to build an empire.

The founder, chairman and CEO of the Naftali Group has conquered New York City, and is in no way ready to subscribe to the shaky notion that COVID-19 is leading to the demise of the future of its real estate.

In just the last few months, the firm has launched sales at its newly-built condominium project, The Benson, at 1045 Madison Avenue on the Upper East Side, and has also closed on its purchase of a prime Williamsburg waterfront development site at 470 Kent Avenue for just under $102.4 million. The firm also finds itself in a prime position to ramp up its mezzanine debt lending platform, Naftali Credit Partners, helped by its inherent asset management and operational strength.

Naftali, a father of two, first got a taste for commercial real estate while he was studying engineering at the University of Southern California, where, out of necessity, he managed a few residential properties in Los Angeles for a small local company. After finishing his studies in the late 1980s, he worked in engineering in L.A. for a couple of years, while still dabbling in real estate peripherally.

The First Gulf War in the early 1990s drove him to return home to Israel. "I felt very bad to be in L.A. while it wasn't a really pleasant time in Israel," Naftali said. "I got a job as a junior project manager for a development company [focused on] residential projects in Israel. I started my development and construction career basically from the bottom up — a junior project manager to a senior project manager — and I moved up the chain of command and got to the point [where] I was CEO of a small real estate company."

In 2000, New York — or, Neptune, N.J., as it turned out — beckoned. Fed up with townhomes, Naftali helped to quickly accelerate Elad. What followed for him was a string of Manhattan purchases in the early 2000s that led to the notorious splash that would really put him and the firm on the map: the $675 million purchase and subsequent renovation of the Plaza Hotel.

Now, about two decades after he touched down in New York, the eponymous firm that Naftali founded in 2011 — following his departure from Elad — has become a staple of New York City's luxe scene in its own right, regardless of the investment climate.

Commercial Observer: How did you make your way into real estate?

Miki Naftali: Over 30 years ago, I moved to California, and I went to [the University of Southern California]. And, to be able to survive while a student, I got a job as a property manager for a residential building in Downtown L.A. At the time, it was a very rough area. I managed the building, and then they asked me to manage a couple other buildings for them. It was just a few partners that owned a few buildings, not a property management company.

[After a while], they said, "Look, we'd like to buy another apartment building, would you mind going and finding one for us?" I said, "Frankly, I have no clue how to do it." They told me they trusted me and my instinct, and told me to just try.

I didn't know how to underwrite a deal or anything like that. I was looking at different buildings, and interviewing superintendents, and trying to understand the condition of different buildings. Eventually, I saw one in Pomona, Calif., that I felt good about, and I explained to the partner why I thought it was a good buy. He said, "OK, great. Let's meet tomorrow with the rest of the partners." They decided to buy it.

Tell us how you went from townhomes in New Jersey to buying a slew of Midtown properties and, eventually, the Plaza Hotel in a span of four years, starting in 2000.

[After finishing the townhome project,] I started to push really hard, walk the streets, and try to knock on every door to convince brokers I was real and representing a real potential buyer. It wasn't easy, but eventually I got the first deal when I bought 151 West 17th Street, the old Barney's parking lot in Chelsea. It took me some time to convince banks to give me construction financing, but eventually I convinced HSBC to do it.

And then, very quickly, I bought a lot of development sites or existing buildings. Four years after I moved here, I had multiple projects: 151 West 17th Street, 224 West 18th Street and 49 East 21st Street. I also bought the New York Gift Building at 225 Fifth Avenue, 655 [Avenue of the Americas], and then I bought the Plaza Hotel in 2004.

[The Plaza] was after I lost the deal for the Mayflower Hotel, which is now 15 Central Park West. I was trying to find a property on Central Park, and [after Mayflower fell through,] I looked for what was next and potentially ripe for development, which was the Plaza. I reached out to a Singaporean billionaire, together with [Saudi] Prince Al-Waleed bin

Talal and, eventually, I bought it.

In the 10 years from 2000 to 2010, [in building the Elad business] ... we owned a lot of properties in the U.S., over 16 states, and in Canada. And I took the Canadian arm public, so I was very busy. I left the asset value on the balance sheet at $7 billion, after starting with basically nothing. [In 2010,] four or five top executives left Elad with me to start Naftali Group, and we were off to the races.

You just recently launched sales at your new condo development The Benson — with sales starting at $12.5 million — the first new ground-up condo project on Madison Avenue in quite some time. Why was now the best time to launch sales?

I won't pretend it is the best time to launch sales. The reason we felt comfortable enough to do it was our long-term view of New York City and, specifically, about The Benson, which is in such a unique location and is such a unique building. We felt comfortable that even though it's not the best time overall, this specific project will do well in any market.

It is so difficult to assemble a site on Madison Avenue, in a prime location, meaning the Gold Coast between the high 60s to 80s and anywhere from Park Avenue and Fifth Avenue — the prime of the prime. The reason it's so difficult is investors that own buildings in this small area, they don't sell. Once in a while, if you find one to buy, it's a small, standalone building with rent control or rent-stabilized tenants, and you can't really put together a development site.

[With The Benson], we worked for a few years to put a few buildings together to assemble a site in a prime position off 79th Street to be in a position for retail tenants willing to relocate elsewhere in the Upper East Side.

What drives your optimism about New York, and what do you make of the recent notion that cities are essentially dead?

We keep hearing different opinions. The most aggressive is [that] New York is dead and won't come back. But we think we have to widen our view and look at the world.

I have friends and colleagues in London, Paris and Rome. London, you could say, is still deserted; restaurants aren't working at normal capacity, hotels are basically empty, and shows are not performing. If you walk the streets, it's deserted. And it's the same in Paris and in Rome, even more so — 90 percent of restaurants in Rome are closed.

But that's not the case in New York. It started with takeout and delivery, and expanded to outdoor seating, and now it's expanded to 20 percent indoor seating.

Now the question is: Do we believe that the concept of urban living is dead? It's absolutely not dead. London, Paris and Rome will not disappear, and New York City will not disappear. What needs to happen in order to get back to normal? To me, it's a vaccine.

How has that affected your firm's attitude toward new investments today?

LUXE FACTOR: Despite negative rhetoric about the strength and future of New York, one of its real estate mainstays, Naftali Group, hasn't really missed a beat. It's launched sales at The Benson, a newly-built residential condo on the Upper East Side, and has scooped up one of Brooklyn's most sought after development sites at 470 Kent Avenue for around $102.4 million.

To me, I always like to buy when there's fear in the market. I was here after 9/11 and in 2008 and 2009, and it was very difficult. Every city in the world suffered a lot — companies disappeared, and banks disappeared. My philosophy is things will come back to normal. Now, I don't think it'll take 10 years, but we're prepared.

In real estate, it takes a long time to find it, buy it, finance it and develop it — I want to be ready when the market comes back. When the market is on fire, sometimes we get to a point where stupid money is chasing deals that don't make sense, and that is not good for anybody. It's not healthy for the market. There has to be checks and balances in the market. To me, the only way to do a deal is if it makes financial sense.

But we also know when to slow down and be careful. From 2015 to early 2018, we didn't buy anything because the pricing was too expensive. And, now, we don't have 3,000 to 5,000 apartments to sell; we've launched [The Benson] with 15 units. Historically, I've had hundreds of units. It's hard to time it perfectly.

Right now, we have no legacy issues and no problems in our portfolio. And we're bullish on the future of New York, and our long-term view is New York is here to stay. The younger generation wants to be in New York, and the Googles and Amazons of the world are here to stay. They need the talent, and the talent is in New York.

Your closing of the $102 million purchase of the 470 Kent Avenue site in Brooklyn earlier this summer worked as evidence of your messaging. Tell us about that acquisition and why it penciled out for you.

It took over two years to buy this site. [We were] convinced they were asking too much for it, and they told us we didn't know what we were talking about. Every big developer was trying to buy this site, and we were lucky enough to keep our eye on the ball. We didn't try to steal the site, but buy it at a reasonable price.

The closing was scheduled while we were all dealing with the pandemic, so we had to make a decision whether we were going to close or not. It was a difficult decision, because it's an expensive site. We are planning a majority rental project across multiple buildings, and it's going to take about four years to get it done before we open the door and let the first renter in.

We looked at the fundamentals of New York City and felt strong enough about it. I don't know if everything will come back in 2022, or even 2023 — but 2024? Construction costs have gone up dramatically in the last five years, which brings the basis up. But now, because we have less construction and fewer new buildings breaking ground, it's clear construction costs will start to go down, so we hope, and we think, we'll be able to save some costs on construction. Even if the market is a little soft when we open, our basis will be right.

With your old — and first! — banking partner HSBC having made that loan on 470 Kent Avenue, what's it been like as a larger sponsor navigating today's lender's market to get what you need? You have a conservative approach with financing, so this market seems somewhat tailor-made for you.

The last six months have been very much like after 9/11. The traditional commercial banks are very careful and very selective. We like to operate in this market. When they are selective and careful, we have less competition — but it's now healthy competition. Smart, good real estate investors and developers with great reputations and a know-how to get things done in different markets are the players that are getting financing. Lenders are looking at those players, saying, "Do we trust them? Are they realistic or dreaming?"

I think that as long as it goes back to basics, as long as the business plan is realistic, and your basis is reasonable, and you have enough of a buffer or flexibility in the business plan, lenders are open for business.

In the last 20 years, we've always worked with commercial banks, and we are very sensitive to interest rates and leverage — we're very careful about leverage to not go over 65 percent financing. My friends in the commercial banking industry are always making fun of me, because we keep arguing about the interest rate — they're trying to get more from us and we're trying to get it done. We're always thinking about the downside.

And through your mezzanine lending vehicle, you can claim a robust asset management operation that should appeal to senior debt providers at this time.

We are very careful ... [but we can] feel comfortable between 50 percent and 70 percent [of the capital stack]. We are active and financing deals only in New York. For us, it's a healthier [finance] market.

The demand was very, very strong before the pandemic; but, frankly, we turned many deals down because they were too wild and crazy. It's healthier now, in our opinion, because commercial banks are taking that more conservative approach, providing a much lower leverage in deals. If we see a deal that really makes sense, and they want to see us behind it, we are comfortable enough to take a position.

Even if we're not working on a specific deal through the mezzanine fund, we might get calls from the banking industry asking for our opinion on a deal they are looking at financing. It's very healthy for the market. There's only so much you can do as a banker to really underwrite a deal. Underwriting is one thing, but really feeling the market and real estate provides another layer of comfort and security.

With the lack of data and general uncertainty, how can you stay ahead of a market like New York?

We look at the fundamentals, instead of just being in a competition with others. If somebody pays, say, $1,000 per square foot for a piece of land, and [the property] next door is for sale, and that broker is telling us it's going for $1,000 because Joe Schmoe paid $1,000 next door — for me, this is not how you buy. The reason to buy is how much competition we have in the market when trying to buy. If we build rentals, how much competition is in the area and what is the demand?

One of the most important things in our philosophy is we're not good enough to create demand, so we're always trying to work in markets and neighborhoods where demand is high. We buy it right — the basis of your buy is very important — and take a reasonable 60 to 65 percent in financing to have a little more flexibility with sale and rent prices, ride out the one or two years the market might be soft, and then expand when rebounding.

COMMERCIAL OBSERVER

Plaza Sweet: Miki Naftali's Journey to New York and Why He's Not Going Anywhere

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MIKI NAFTALI. IMAGE: SASHA MASLOV/ FOR COMMERCIAL OBSERVER

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