Long Island
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Where Business Gets Down to Business

Farkas' fill-osophy

Repositioning strategy pays off in Metropolitan's $50 million office sale

By DAVID WINZELBERG

When Joe Farkas bought a half-empty office complex in Great River for $20 million six years ago, the commercial real estate entrepreneur saw an opportunity to improve the tired property, lease it up and boost its flagging value.

What he didn't see was the impending downturn that would precipitate vacancies and severely reduce rents and real estate prices.

So rather than retrench, Farkas' firm, Jericho-based Metropolitan Realty Associates, and its Manhattan-based equity partner, Angelo, Gordon & Co., executed an ambitious plan to expand the office park, redeveloping an old warehouse on the site into a 161,000-square-foot office building, breaking ground on the project in June 2008. Just a few months into construction, a withering recession began to take hold and threatened to scuttle the plans.

"I was terrified," Farkas said. "I was building on spec. I didn't have a single tenant."

But the rechristened Sunrise Business Center, a sprawling former Grumman site that had failed to make it as a tech campus under previous owners, was located in an Empire Zone, and Metropolitan bundled the resulting benefits – tax abatements and discounted electric rates – into a carrot for potential tenants.

The landlord coordinated its repositioning plan for the property with the Islip Industrial Development Agency, implementing a 15-year payment in lieu of taxes program designed to entice tenants to the property, which has since helped to create and maintain about 2,500 jobs at the office complex.

Farkas: Partnership with financier key to success

"Those nickels and dimes add up, and I was able to show tenants that they were saving money," Farkas said. "It became a selling point."

The incentives from the town helped, but Metropolitan also offered new tenants an unprecedented two years of free rent to get bodies in the buildings.

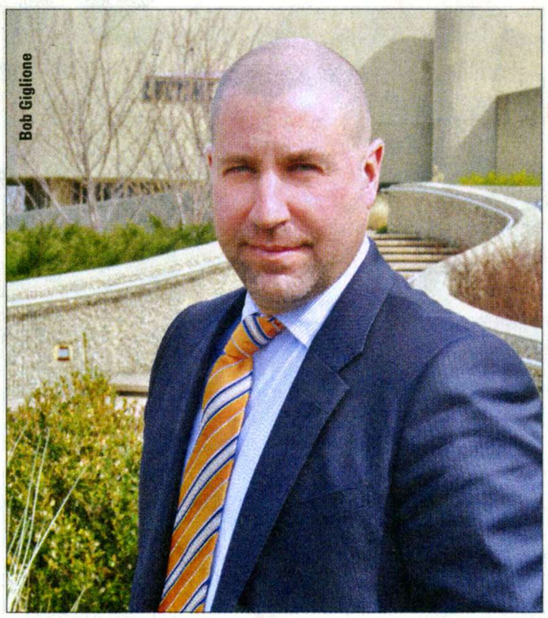
"Brokers said I was crazy," Farkas said. "But I've never had a lender or banker pat me on the back and say, 'Way to keep that building vacant.'"

The strategy paid off. Occupancy at the Great River property eventually climbed past 95 percent – at least 10 percentage points better than Long Island's current average occupancy rate – and Metropolitan just sold the 388,500-square-foot office complex to the Feil Organization for $50 million.

Farkas said the key to his success here and with other repositionings is buying low.

"The property has to be market-sensitive and can't be overleveraged," he said. "I look for a low-cost product that can be improved."

Metropolitan is also looking to sell its 293,500-square-foot retail/medical office building at 711 Stewart Ave. in Garden City, which has also undergone a major redevelopment. After buying the mostly vacant property for $15 million in May 2010, Farkas subdivided the building into three condominiums featuring two large retail spaces – fully leased to B.J.'s Wholesale Club and LA Fitness – and a separate medical office condo that's about 60 percent occupied. The $35 million redevelopment allows Metropolitan to sell the condos as a package or individually.



Bob Giglione

JOE FARKAS: Generous incentives have kept the Sunrise Business Center 95 percent occupied.

As part of the property's repositioning, Metropolitan was able to secure a 10-year payment in lieu of taxes agreement with the Town of Hempstead Industrial Development Agency, which helped lower tenants' initial occupancy costs.

"Joe has an uncanny way of identifying and grinding out value where others often don't see that opportunity," said Marty Lomazow, a broker with CBRE who has done several deals with Metropolitan. "That ability coupled with buying at the right price transcends to a lot of his projects."

Further proof of Farkas' farsightedness: In February, Metropolitan and Angelo, Gordon & Co. sold a mixed-use building on East 26th Street in Manhattan for $57.5 million after buying it vacant for $32 million just 14 months earlier.

Without solid deal underwriting, however, Farkas admits he'd be at a loss. Metropolitan's partnership with financier Angelo, Gordon & Co. has allowed projects like Sunrise to be carried through lean times and provided capital for essential improvements.

Daniel Rudin, vice president at Angelo, Gordon & Co., said the rent-concession strategy Farkas used to fill the Sunrise space worked because the creditworthy tenants coming in signed long-term leases for market-rate rents, which translated into a stable cash flow for the property.

"Everything has to make mathematical sense," Rudin said.

Meanwhile, Farkas said he is always looking for a low-cost fixer-upper, ideally a neglected property ripe for a transition. And though the Island's office market is still recovering from contracting companies and the loss of jobs over the last few years, he said the sector still has its share of successes like Sunrise.

"If you own an office building on Long Island and it is professionally marketed and managed, you will lease that product," Farkas said.

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