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Executive of the Month

HIS PROJECTS CONSISTENTLY TRANSFORM PROPERTIES INTO CASH-FLOWING ASSETS

Farkas, president of Metropolitan Realty Assoc.: "The Value Man" finds value with merely a glance

JERICHO, NY Joseph Farkas finds value in properties that many developers would pass by with little more than a dismissive glance. The president of Metropolitan Realty Associates (MRA) and a 25-year veteran of the commercial real estate business, Farkas has a keen understanding of what an office building or manufacturing site is worth. In fact, he cut his teeth in the industry while working in the valuation division at Cushman & Wakefield before moving on to brokerage and development.

The ability to estimate a property's market value has certainly helped Farkas to underwrite or evaluate acquisitions, but the eye for value that sets Farkas apart from most investors, and even from some developers, is his ability to see the redevelopment potential in a dormant factory or half-vacant office tower. From Long Island to the boroughs, and in select markets across the nation, his projects have consistently transformed properties from a state of disuse and wear into vibrant, cash-flowing assets that investors would–and do–pay dearly to possess.

"Appraising is something of a science, and investing is much more of an art," Farkas said. "Many times the two don't meet because a developer may see something different, and hopefully for the better, than the appraiser who is looking at a property straight down the middle."

MRA specializes in adaptive reuse investments in the New York metropolitan area, where it owns more than 1.5 million s/f of office and retail space. MRA's most recent purchase is the former Stella D'oro factory in Riverdale, which the company has renamed Riverdale Crossing and is redeveloping as a 160,000 s/f destination retail center anchored by a 118,000 s/f BJ's Wholesale Club.

With his developer's eye, Farkas has consistently wrought change for the better at the properties MRA has acquired since he founded the company in 2001. Some of the latest examples include Garden City Square, located at 711 Stewart Ave. in Garden City, now a 293,500 s/f retail and medical arts complex anchored by BJ's Wholesale Club and an LA Fitness. MRA and long-time equity partner Angelo, Gordon & Co., LP (Angelo, Gordon), acquired the former Depository Trust Corp. facility in May 2010 for $15 million and embarked on a $35 million renovation that required removal of a two-story, 50,000 s/f bank vault encased by walls, floors and roofing all 2.5 feet thick and reinforced with massive rebar throughout.

In another success story, MRA and Angelo, Gordon in 2011 sold the former Endo Laboratories facility at 1000 Stewart Ave. and 500 Endo Blvd. in Garden City for $39.2 million, having converted the former pharmaceuticals factory into a global headquarter facility for Lifetime Brands Inc., complete with a 50,000 s/f showroom.

MRA achieves its greatest value gains by filling its rent rolls with healthy tenants. To accomplish that goal, the company maintains a high level of service and amenities when other landlords are slashing property operating budgets.

Garden City Square, 711 Stewart Ave., Garden City

Aerial rendering, Riverdale Crossing, Riverdale

Joseph Farkas, Metropolitan Realty Associates

Consider the Sunrise Business Center in Great River, where Suffolk County's Department of Health Services is moving its headquarters into 63,400 s/f it leased recently. That deal brought occupancy at the 388,500 s/f, mixed-use complex to 97% and earned accolades as the Top Office Lease of 2011 from Long Island Business News. (MRA received an unprecedented three top honors in the real estate competition, including Top Office Sale for the former Endo Laboratories deal, and Top Retail Lease for BJ's Wholesale Club at Garden City Square.)

When MRA and Angelo, Gordon purchased Sunrise Business Center in 2006, the complex was less than 50% occupied. Under Farkas' direction, the joint venture brought occupancy in two existing buildings to 98% during the depths of the recession in 2008. The owners later razed another structure on the site and constructed a third office building, now fully occupied.

The financial crisis and recession didn't sink Farkas' plans for Sunrise Business Center because the developer relies on minimal debt to finance his deals. "Having a low basis in the property with low leverage is the key to success in real estate," Farkas said. "That gives us flexibility to make deals in any type of market, good or bad, and keep our properties full."

It can take three to five years to implement extensive turn-around strategies, but Farkas remains open to unexpected opportunities during that time. A case in point is 15 E. 26th St.

In an office building with a meager 56% occupancy, Farkas saw an excellent location in a high-density neighborhood. In a joint venture with Angelo, Gordon and Belvedere Capital, MRA purchased the 150,000 s/f space in December 2010 and set to work making improvements, intending to fill the vacancy over time and collect rent for a few years before an eventual sale.

It didn't work out that way. Within weeks of the acquisition, retailer Vera Wang had leased 40,000 s/f of the space for corporate offices and a showroom. In early 2012, a buyer paid more than $57 million for the property, nearly twice the amount MRA and its partners originally paid for the asset, thanks to its improved occupancy and that long-term lease to Vera Wang.

"We found the right tenant for the space and the market moved quickly," Farkas says. "We had underwritten that acquisition for a six- or seven-year hold, but from acquisition to sale, we only had it for 14 months. So sometimes you can get lucky."

Farkas has completed some multifamily residential projects in the past, but his current interests are turning toward retail development in the New York metropolitan area and the boroughs of New York as well as his core business of office redevelopment, particularly in Manhattan and Long Island.

On the retail front, demolition has already begun on Riverdale Crossing. The project will deliver a modern retail project in a densely populated market that appears, at first blush, to lack suitable sites for development. "We're starting to focus a lot more of our time, energy and dollars on retail development and redevelopment, and we're doing that with a much better understanding of the big-box business and the infill that follows the big-box business," Farkas said.

A challenge to bringing retail to those areas, he says, is finding properties that can be converted to meet a modern retailer's needs for receiving docks, parking and other features that are intrinsic to big-box operations.

"The boroughs have a lot of mom-and-pop, old-line kind of retail, but major retailers want stores like they have in the suburbs," Farkas said. "To land them as tenants, it helps if you have new, well-thought-out projects, and to deliver space that will work for their prototypical store. That's the trick."

Lately, Farkas' eye for value-add plays is turning to his longstanding core business of office development. "The suburban office market has been really beaten down–It's not a favorite in the eyes of investors nor lenders and deals are being traded at what are probably the lowest price points in this cycle," Farkas said. "We're clearly looking to capitalize on that market, with an eye toward recovery five years down the road."

Established in 2001 by Farkas, Jericho, N.Y.-based MRA is a national private real estate investment and development firm. MRA utilizes its analytical, operational, construction, leasing and marketing expertise to implement investment strategies that create value for its investors while creating a first-class environment for its tenants and residents.