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Richard and Jon Kalikow Say What They Really Think

The top Gamma Real Estate executives are betting on the Southeast and beef about the Sutton Place drama.

By Betsy Kim | February 20, 2018

NEW YORK CITY—Gamma Real Estate has a hard money lending business, making short-term loans of up to \$200 million secured by real estate and owns a commercial bank. They have developed more than 10 million square feet of office property and more than 10,000 residential units.

The Dakota Pipeline

Jon Kalikow, the president of Gamma Real Estate, described fracking as “one of the most exciting plays around 2011.” He and his father, Richard Kalikow, the CEO and chairman of the company, presented at Anchin’s Construction & Development Forum’s “Fireside Chat,” on Thursday. “Not because we know a lot about the oil drilling business, but we know if you were going to have a flood of people out there, they would need places to live.”

For a few years, the North Dakota multifamily properties were very lucrative, rivaling prices of New York City. However, when the oil prices fell and people left, valuations dropped and institutional loans dried up. So, now Gamma is “weathering the storm” in the Dakota plains.

Although Gamma has recently been under a firestorm of headlines for 3 Sutton Place in New York City, the concentration of their residential portfolio is in the Southeast.

Betting on the Southeast

According to government projections 35% of the population will live in the Southeast in the next 35 to 40 years including the retirees who move, Jon noted.



From left: Richard Kalikow, Jon Kalikow and Jay Neveloff (moderating talk)

He also pointed to higher taxes that people pay in the Northeast. As Florida has no state income tax, Jon anticipates a flood of people moving there from the Northeast for that reason, alone.

Jon credited “right-to-work” laws, which weaken unions by prohibiting unionized workplaces from requiring union membership or payment of dues, with boosting the regional economy. He stressed six or seven car companies recently moved to the Southeast including a BMW plant in South Carolina, which is now the leading US automobile exporter. All southeastern states have “right-to-work” laws.

He described Atlanta as the central transportation hub, with the largest port following New York, Newark, Los Angeles and Long Beach. He praised the city’s leadership for gentrifying its downtown and for streamlining governmental processes, such as building permits.

Richard noted the Port of Savannah is growing faster due to the widening of the Panama Canal. “Out of the three biggest ports, it’s the only non-union port,” he said. “Nobody wants their goods tied up for a week or two like when there was a strike in Los Angeles.”

Charlotte, Orlando, Tampa, Austin and Dallas are cities with generational legs, said Jon. “We absolutely think the college graduating community, many who had focused on Wall Street as the easy place for wealth are now more likely focused on these jurisdictions in the Southeast, mostly because of quality of life and cost.”

For Amazon HQ2, Richard predicted Atlanta, Newark or DC would be picked, pointing to ports and interstate airport access.

Jon believes Atlanta or Dallas will be selected due to their transportation. Plus, Atlanta’s large and educated population would work at rates significantly cheaper than in DC or New York, he said, then discounted Newark anticipating the required tax incentives would be back breaking.

3 Sutton Place – Now at the Board of Standards and Appeals

Joseph Beninati’s Bauhouse Group borrowed \$147 million from Gamma to develop 3 Sutton Place and defaulted. Gamma foreclosed on the property and acquired it for \$98 million including air rights.

Several lawsuits were filed including Beninati’s 26-count lawsuit against Gamma. Philip Pilevsky, the CEO of Philips International, sued Gamma to try to stop the foreclosure. Gamma then sued Pilevsky for tortious interference of Beninati’s contract with Gamma.

These lawsuits were mere subplots. The main drama occurred when community members learned of Beninati’s plans to build a 950-foot, 87-story tower as the R-10 zoning put no height limitation in place. Gamma then planned to build a 700-foot, 67-

story tower.

A community group, East River Fifties Alliance (<http://erfa.nyc/nyc-city-council-45-0-vote-in-favor-of-rezoning/>), backed by New York city council members Ben Kallos and Dan Garodnick, Manhattan borough president, Gale Brewer, and state senator, Liz Krueger, advocated capping building heights at 260 feet, between 51st and 59th streets, east of First Avenue. On Nov. 30, the New York city council voted 45-0 in favor of the rezoning. It did not grandfather 3 Sutton to allow an exception.

Gamma had poured concrete, but then their work was stopped. However, the buildings department allowed them to finish the foundations citing safety reasons. Gamma is appealing to the Board of Standards and Appeals for authorization to construct its tower as planned.

“What happened here sets a precedent that is unfathomable in this city. What you need now to grandfather zoning is a building permit and a complete foundation, which is unheard of,” said Richard. “In every other jurisdiction in America, usually when you have a building permit, you have grandfathered zoning and here in New York if you had zoning, it was sacrosanct. That doesn’t exist anymore since this project.”

Jon noted, “A different developer did something smart at a site we looked at on W. 67th Street.” The developer filed for a building that was “this high.” Jon motioned a short length. But once he had his plans ready, he amended the tower to make it “that high.” Jon motioned a taller length.

“His belief and hope, and he’s probably right, is that the community can’t muster the resources to stop him. But these are the kinds of tricks you have to do these days, if you even hope to be successful,” Jon said.