

## Herald Square's Gerard Nocera On Chelsea, Music Studios and the Lipstick Building



GERARD NOCERA. PHOTO: CHRIS SORENSEN/FOR COMMERCIAL OBSERVER

**Gerard Nocera**, a co-founder and managing partner of the real estate investment and management firm **Herald Square Properties**, has experienced virtually every aspect of the commercial real estate business since starting out as a broker with Coldwell Banker in 1984.

The 59-year-old New Jersey native quickly learned that the brokerage side was not for him and developed a talent for steering the fate of buildings. He barreled through short stints at several companies before landing at SL Green Realty Corp. around 1989. He spent 17 years there, rising from junior leasing agent to chief operating officer, working on over \$7 billion in acquisitions and dispositions and helping the firm rise from a small, Grade B leasing and management company to the largest owner of commercial office space in Manhattan.

Since founding Herald Square with Michael Reid

in 2009, Nocera has continued seeking ever-greater challenges on both the management and ownership sides, including running the Lipstick Building at 885 Third Avenue between East 53rd and 54th Streets in the wake of the Bernard Madoff investment scandal.

Nocera, a graduate of Duquesne University in Pittsburgh, Pa. with a bachelor's degree in journalism, lives in Franklin Lakes, N.J., with his wife of 25 years, Odalys, and their three daughters: Gina, who works in retail research for CBRE (and of whom Nocera said, "If I told you her age, she'd kill me"); Emily, 20, a junior at Bucknell University; and Elizabeth, 16, a high school sophomore.

**Commercial Observer: What was your first job out of college?**

Nocera: I worked for IBM and sold computers. I hated it. I didn't like [working for] a big company, and

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they were the biggest of the big. But it was a great experience because it taught me to sell. I liked selling, but I didn't like what I was selling. So I started interviewing in real estate. I got hired by CBRE—it was Coldwell Banker then. I started in retail, which I had zero affinity for, but I got to meet owners. I started to understand how buildings worked and realized that was my side of the business.

### **Why was that side of the industry more to your liking?**

Product. I started with IBM as a product-raised salesperson. I saw [what made up] a well-located building, a well-run building and what goes into making a building attractive to end users. In the early days, it was for retail, [so it was about,] Were the ceilings high and what's the location? But I started to grow an affinity and love for that. So I made a conscious decision to move away from brokering and try to get over to the ownership side.

### **When did you start at SL Green?**

Around 1989, thereabouts. It really was a small shop then. [Stephen Green, the company founder and chairman] wasn't as mature in the business as he is now. The first building I went to, the [tenant] sat across from me and ripped my business card up. He said, "You're the first one from the company I've seen in three years, and you're coming to me a year before my lease has expired?" We ended up renewing him, and he and I became very good friends, but through those experiences, I learned what frustrates tenants and how easy it is to keep them happy by listening to their needs and being attentive. Steve was a visionary with how you create a product on side streets with older buildings. We used to have an adage that we still go by here, that you didn't need to be the best building in New York, you just needed to be the best building in your submarket or on your block.

### **Talk about the start of Herald Square.**

I'm the kind of guy who, when I feel I've met a challenge, I'm onto the next one. I was the COO of SL Green for my last three or four years. I decided in 2008 that it was time for a challenge change. I

had met Mike Reid, who was in charge of the [real estate investment trust] desk for Lehman Brothers, during Green's public offering, and we became very friendly. He left Lehman and went to Green and was COO before I was. I was head of real estate in those days. He and I sat down after the [2008] crash and said, "This may be an opportunity to get back into the B market, because prices are going to be greatly affected." We thought they were going to be down to the hundreds per foot. They never got much lower than \$300 a foot, but our theory was right. The B market, when Steve started to exploit it, was very fractionalized—there wasn't one dominant player. Who better than two institutionally oriented guys to come back into the marketplace and start to operate these buildings the same way we learned with SL Green? We formed Herald Square Properties in mid-2009.

### **Talk about the company's early days.**

We started to talk to money sources, explaining what we were doing, and one of our very first meetings was with a family called the Elsztains, from a company called IRSA. We wanted them to either invest in us, or to go side by side with us for our capital needs. They had made an earlier investment in Lipstick and had just become the managing partner of [the building]. They approached us to become the managing agent for the building, the landlord rep. We said no at first, because we were like, "That's not what we're here for—we're here to buy and sell our own buildings." We didn't want this to take our focus away. They asked us to reconsider, and we did, and it was a very wise decision because it really jumpstarted our company. The Lipstick in those days was still suffering from the Madoff taint. He was just a tenant, but this is where all the bad stuff he was doing was taking place—he was on the 17th, 18th and 19th floors. You couldn't lease space because this is traditionally a financial district, and the financial companies, they'd hear this and turn right around. Here's a side story: When I was with [New York landlord] Cohen Brothers [in the 1980s], I was showing space at 3 Park Avenue, and 3 Park Avenue had a little barber in the back, at the base of the lobby. I was showing space to Sy Sperling, the president of

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the Hair Club for Men. He shows up with a broker to look at space in the building, takes one foot inside the lobby, sees the barber, turns around and says, "no chance." [After Madoff], financial institutions would have the same reaction.

### So how did you turn things around?

The first thing we did is, we started an advertising campaign about how the Lipstick is back. Mike and I looked at [the building] and said, "It's a beautiful thing; it just needs some polish." It looked tired. We started an aggressive prebuild program. We were the first to really get out in front—you got to put a lot of money in your prebuilds to get space leased. We broke up our 26th floor into four different units and hired [architectural firm] Gensler to design not only the installations but also the common corridor. We spent a lot of money cleaning the building up, changed the way the lobby looked and got as much press about the building as possible.

### What challenges do you face these days with the Lipstick Building?

The Lipstick was built in the mid-80s. We're working with Gensler now to redesign it. We're looking at, how do you take the Lipstick from now, stabilized in 2017, to what it's going to be like through 2037 because the building's systems are great, and it will be here.

### Talk about some of your more notable projects at Herald Square.

We were one of the very early ones to see the shift in focus from all East Side and Park Avenue South to this now-booming market in the Garment Center for office tenants. Our program was to prebuild floors as they came on the market. At 142 West 36th Street [between Broadway and Seventh Avenue], for example, we offered a couple of dollars for buyouts for some old holdover tenants that were unable to pay their rent, and we cleared almost the whole building and created this little tech center. We saw the area grow up around us. You have Shake Shack on that corner now, but we saw it as a donut hole—you had pressure from the east, which is Park Avenue

South, and rising rents from the west with Hudson Yards, Midtown to the north, which is always more expensive and Chelsea to the south. So as tenants were looking for affordable rents, where were they going to go? They were going to get into the donut hole, which is the Garment Center, which is supported by wonderful transportation in the triangle between Penn Station, the Port Authority and Grand Central [Terminal]. All these things fell into line. We were able to see this niche, and it got so hot in that building that we couldn't prebuild. We started a prebuild, leased it, started one and leased it. We never actually, except for our first one, got to a full prebuild fruition. We're doing something very similar now at 251 West 30th Street, which is the "Chelsea North" market, which is still a burgeoning market. It's a beautiful little 120,000-square-foot building, which is a music industry building right now and is not reflective of the types of tenants that can pay the rents coming into this market. We bought it off-market from a local family not known for selling, and we've been able to take a building that has no central core now—it has two passenger elevators and two freights, it has no central bathroom run, and it has a very antiquated electrical system. It has no Class E fire system, and it's fully leased. We had seen that within their leases they had a clause that allowed us to terminate after a purchase, so we've terminated most of the leases—peacefully, I'm happy to say—and we're vacating the building. This is by far my biggest personal project. We're putting in a new air conditioning system, we're putting our farm of condensers on the roof, we're putting in a new bust-up electric system. We're also creating a core to put our bathrooms in by eliminating one freight and modernizing another.

**I have to confess, I know this building well. I'm a guitarist, and one of the studios there that closed, Music Maker Studios, was a regular haunt of mine. [They've since moved to 307 West 36th Street, in collaboration with Smash Studios.] My friends and I played there once or twice a month, and we actually played the studio's very last slot on the day they closed. That was a sad day for us.**

Many people knew that building. It's a mixed thing. We're appealing to the new market, but it affects

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what it was. Anybody who's into music knows this building. It does affect us. You're changing this thing that gives musicians an outlet, and unfortunately for New York, those uses can't afford the city anymore. Everything's getting priced out. If you need to get a \$30-[per-square-foot] rent in Manhattan, even mid-\$30s to low-\$40s, it's very hard to find, especially in open spaces that will allow music to be played. There's a light being shined now on Chelsea North. This building is no longer in the middle of nowhere. As Chelsea gets pistol hot and you don't have a lot of B product that's been redeveloped in this marketplace, it'll be \$10 cheaper than Chelsea, \$15 to 20 cheaper than Park Avenue South, like ours. When all is said and done, I'm going to have a newer building than any of the product around my area. I'm scheduled to be done there by the end of July.

### **How is Herald Square's business split between ownership and management?**

Now, it's literally 50/50. For ownership, we have 142 West 36th Street and 1372 Broadway we bought with Starwood Capital Group. It's a sliver equity position for us. They approached us to come in with them, mostly for our management and leasing skills. It's a fully leased building with three main tenants. They looked at it as a great buy, but it's a financing buy. They were able to place great paper on it, and they were going to clip those coupons, hold it and sell it.

### **What are your main priorities at Herald Square today?**

That's very simple, because my portfolio has been reduced over the last two years. We sold 1372 [Broadway], we sold 183 Madison and we just sold 292 Madison. My main priority is 251 West 30th Street, which is my greatest challenge, soup to nuts. It's everything I've been educated for in this business, culminating in this one project. And Lipstick.

### **What neighborhoods are you optimistic about these days?**

Chelsea North, obviously: 251 West 30th Street [between Seventh and Eighth Avenues] is Chelsea North. That's the area I'm most excited about. It's

bursting at the seams to happen. Great product, great transportation and a large demand for affordable space. It's the affordable rent area—given that “affordable” rents are defined differently than they used to be.

### **How are you defining it?**

Mid-\$50s [per foot].

### **What are Herald Square's priorities for the rest of the year?**

To buy two buildings. We're looking throughout Manhattan, Brooklyn, and Long Island City. Though I think the Bronx is the next place. Transportation's there and the product's there. Zoning needs to be worked on. We're looking, but I don't have that patient money. I don't have a tenant base to pull from there yet. If I bought a 100,000-square-foot building, I don't know if there would be enough tenants to fill it. But it's early.

### **You've talked publicly about having ADD. How has this affected your career?**

I credit my ADD with my success. I think without it, I would not have been able to survive in real estate, because it drives me. That constant need for the next thing, the next challenge, the constant need to move now—that's from my ADD. Two things get me up in the morning. That need that the ADD drives, for me to go, go, go. And fear. Fear keeps me moving and ADD keeps me moving rapidly.