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REAL ESTATE **New York**



Development Ushers In New Era

Despite New York City's longstanding, worldwide image as a must-see destination, businesses, residents and visitors won't be forever drawn to Gotham without continuous improvement. Bearing that in mind, developers are hard at work on a massive amount of construction around the city, with much of the effort set to create large-scale mixed-use projects and, in some cases, condominium towers.

By Rayna Katz

From Manhattan's Hudson Yards and neighboring development to Brooklyn's Atlantic Yards and projects in Queens and Staten Island, virtually all corners of the city are entering a new era. Financing structures for these projects are as varied as the buildings themselves, with developers finding unique ways to bring their ideas to fruition.

The development is a definitive sign—

finally—of a return to prosperity for the city, according to industry analysts.

"These projects, taken as a whole, are very good for the city," says Richard Anderson, president, New York Building Congress. "They're providing jobs, economic activity and transportation. They're a great harbinger of New York City for the future."

"These big projects illustrate why the construction market is heading toward a record level of activity next year," he adds. "We're forecasting that total activity will reach \$37 billion. That's back to the peak of 2007."

Rosemary Scanlon, dean of the NYU Schack Institute of Real Estate, agrees, noting that the timing is right for these game-changing projects. "New York has recovered faster than any other part of the country" she says. "Bank rescues by Washington, DC were largely of our banks, and the fact that tourism has kept up, cultural facilities have

stayed strong and there's been great residential development throughout the city—especially in the boroughs—makes a difference, too. Once banks see this, development projects are ready to roll."

The projects, she notes, represent an investment in infrastructure, "creating land by decking over both Hudson and Atlantic Yards, and with the World Trade Center we will have the new PATH train station and the Fulton Transit hub," she says. "If they're planned well and done well, they'll allow for a mix of uses that aren't otherwise possible in New York because it's so built up."

The household names behind the projects—the Related Cos., Moinian and Forest City Ratner, to name a few—suggest there's little chance of things not being "well planned and well done." Here's a breakdown of each project, its financing and what it will bring to the city's streets.

HUDSON YARDS

Spanning from West 30th Street to West 33rd Street, across Tenth Avenue through Twelfth Avenue, this 26-acre site will feature over 13 million square feet. A project of the Related Cos., Hudson Yards will be home to 750,000 square feet of retail space. The catering company of uber restaurateur Danny Meyer—the creator of Shake Shack as well as fine dining restaurants—will create private dining spaces for tenants, unique signature events and open-air cafés. Also already committed is

Brotherhood of Carpenters and Joiners, along with Oxford Properties Group.

Boosting the project's appeal is the extension of the number 7 New York City subway line from its current terminus at Times Square to a new station between Tenth and Eleventh avenues at West 34th Street. Service on the revamped train will start next year.

GOOD NEIGHBORS

Meanwhile, as recently as early this month, a big parcel of land within Hudson Yards was snapped up by McCourt Partners, a Los

retail space. However, a couple of parts of that plan are subject to change.

"If we got a monster company that'd take the whole building, we'd allow it to monkey with the design," says Oskar Breecher, EVP of development for the Moinian Group. "The building could be 1.8 million square feet of rentable office space."

And if those corporate users don't want residences mixed into the project, that aspect would be nixed, he says. "They'll have to make a decision on mixed use."

As for financing, Breecher says, Moinian

Capitalizing on a need for growth and market timing, developers are planning large-scale mixed-use projects throughout New York City

Fairway Market, which last month agreed to anchor the south tower with a more than 45,000-square-foot store.

Vast office space is slated for the project; cosmetics giant L'Oreal has already signed on for 402,000 square feet and software firm SAP has agreed to take 115,000 square feet, while apparel firm Coach USA purchased 740,000 square feet for its world headquarters. The companies bring the project's south tower up to 80% committed.

Approximately 5,000 residences, a new school and luxury hotel are also on tap, along with a park. Finally, plans are underway to include a cultural facility, the Culture Shed. The project's first tower is under construction and slated to open in 2015; the remainder of the project is due in 2018.

"We've seen a movement toward the West Side," says Joanna Rose, SVP at Related. "Chelsea is where we get our highest rents, there's a lot of excitement in the area over restaurants and nightlife, and there's been a cultural movement with the new Whitney Museum to the south and now the Culture Shed to the north."

As of April 2013, Related and its Canadian pension plan-backed partner, Oxford Properties Group, closed on nearly \$1.4 billion in financing. Equity investors in the first phase of Hudson Yards include Coach Inc., Related, Oxford, institutional investors advised by J.P. Morgan Asset Management and a prominent sovereign wealth fund. Construction financing is being provided by a syndicate led by Starwood Property Trust, which includes member organizations of the United

Angeles-based firm making its foray into New York. The company reportedly plans to develop the 26,000-square-foot spot at 360 Tenth Ave., on West 30th Street, next to the Spur at the High Line Park, into a mixed-use property on the site that will include retail, commercial and residential components. Clearly, its interest in the land was high: it paid \$167.3 million, three times the price paid by Sherwood Equities and Boston-based Long Wharf Real Estate Partners LLC when the JV bought the spot for \$43.5 million in May 2011.

Sherwood has long been a believer in the area. "We have owned two sites at Hudson Yards for more than 20 years because we saw this coming as an inevitable development," says Jeff Katz, president and CEO. "There was this huge area of very expensive, underutilized land, and if Manhattan was going to grow, it had to grow there or not at all. And now it's happening at a fierce pace and on a fierce scale."

The company has two other sites in the area. It plans to build a 250,000-square-foot residential tower on Tenth Avenue between 35th and 36th Streets and a project of up to 2.5 million square feet on Tenth Avenue between 34th and 35th streets.

Additional developers will benefit from the Far West Side expansion. Along Hudson Park and Boulevard, the Moinian Group is creating 3 Hudson Boulevard, a 1.8 million-square-foot mixed-use tower. The project—not yet under construction at press time as it awaited an anchor tenant—is slated to include about 1.5 million square feet of office space, 252,649 square feet of high-end housing and 21,525 square feet of

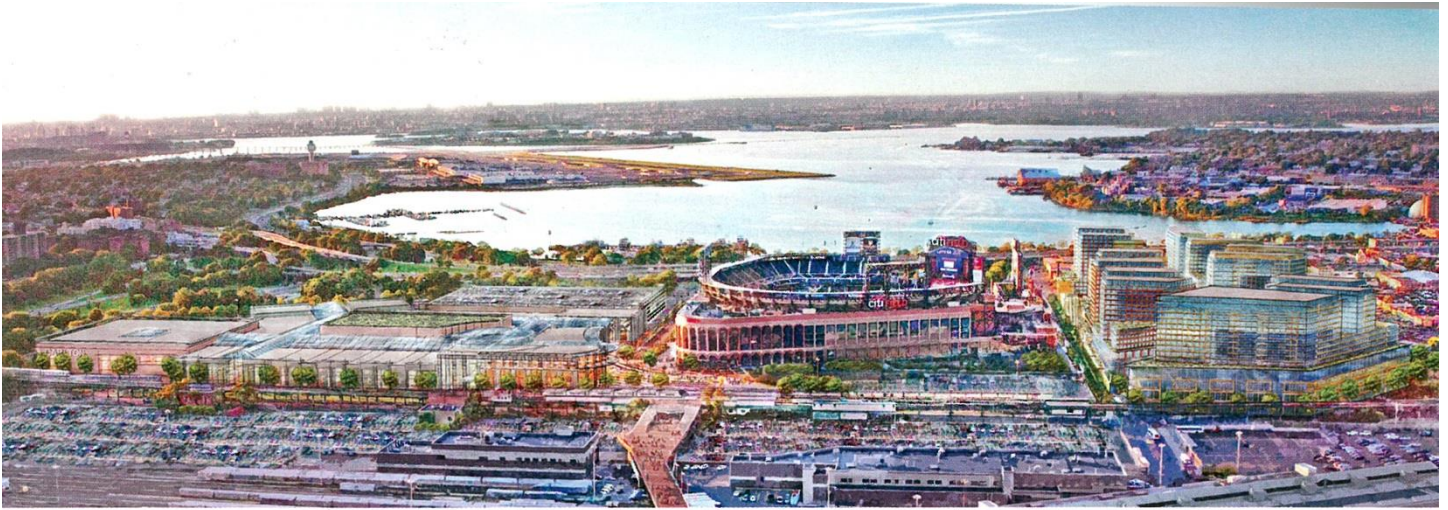
has had nary a problem. "The banking system has opened dramatically in the past two years. The loan-to-value ratios are into the 65% range, or even better, so the requirement of equity is lower because people are more confident in the economy."

Still, he admits, not having a tenant secured is a stumbling block. "Having an anchor is key because that will solidify the financial validity of the project."

Also in Manhattan, in the trendy Meatpacking District, co-developers Taconic Investment Partners and Thor Equities have topped out 837 Washington, a retail and office tower in a funky-looking twisting structure from within an existing landmarked building. The 55,000-square-foot property is expected to entice fashion and technology industries. Numerous possible divisions allow for up to 38,500 square feet of retail space or 40,000 square feet of office space.

"It's an exo-skeleton of steel and the floors rotate as you go up, so on the outside it appears as if it's on a torque," says Paul Pariser, co-CEO at Taconic. "People look at it and say 'wow.'"

The building, owned by Diane von Furstenburg, is adjacent to the popular High Line and close to the upcoming Whitney. "When you add a location rich in historic character, entertainment, fashion, the High Line and the greatest American art museum in the city and maybe world, it's a dynamic spot," he says. "It's very close to the West Village, one the highest-priced residential areas in the city. It generally has low-rise buildings and is a charming place to live."



In Queens, the city's Economic Development Corp. is overseeing the redevelopment of the 23-acre Willets Point. Phase I will feature nearly 900,000 square feet of retail and entertainment; 500,000 square feet of office space; a 200-room hotel and 2,500 housing units.

The project's financing came from an approximately \$50-million mini-perm construction loan from M&T Bank Corp., with the remaining \$50 million coming from developer equity.

THE YARDS GROW IN BROOKLYN

Adjacent to Downtown Brooklyn, the Atlantic Yards project is coming along strongly for developer Forest City Ratner. "We had a very big 2012, not only because we opened Barclays Center," a 675,000-square-foot arena, "but we opened our first residential building," says Melissa Roman Burch, SVP, commercial and residential development. "We broke ground in December on 363 units."

The company also lined up financing at year-end for the project's first apartment tower, deemed B2. A \$92-million loan was provided through tax-exempt bonds that are credit enhanced by Bank of New York Mellon and Capital One, says Roman Burch. In addition, the NYC Housing Development Corp. provided an approximately \$11.5-million second mortgage.

At B2, only half the units will be market rate. "We wanted to make a strong and early statement in the build out that we're committed to affordable housing," she says.

In total, of the project's 6,400 units, 2,250 will be set aside as affordable housing for low-, moderate- and middle-income New Yorkers. Just over 1,900 units could be built as condos but FCR retains the right to make them rentals—an option the company is leaning toward, Roman Burch admits.

"Our preference is to build to own, so we like the rental units. We like the ability to hang onto the property long-term and watch the cash flows grow," she explains.

As a result of the affordable housing in B2, the project qualifies for LIHTCs. FCR is poised to sell those to a syndicator to buy

equity, she says. "We'd likely do that over the next couple of years."

FCR also secured a partner for the tower, the \$400-million state pension fund of Arizona. The arrangement includes plans to invest in properties nationwide. "The fund wanted a portfolio in gateway cities nationwide, which is our strategy too," Roman Burch reveals. "Also, Arizona was interested in the 50% ratio because it's wonderful to have the predictability of affordable housing when underwriting a new project."

There's been a notable shift among banks that's worked in favor of Atlantic Yards' development, Burch asserts. "In 2009, these financings were incredibly difficult to line up and construction starts came to a virtual halt," she says. "Now, the market that hasn't fallen off as much as other parts of the country and we have specific Brooklyn interest as wind in our sails as we go forward."

That interest, from the worldwide markets, has helped FCR fund other portions of the project. A \$510-million tax-exempt bond, as well as approximately \$228 million for the facility's infrastructure, backed the arena. The latter debt came from Chinese investors through EB5 financing, a relatively new program that enables borrowers to secure monies from foreign investors in exchange for providing visas.

"It's all about expanding the sources we can tap into," says Roman Burch. "This was an opportunity to partner with China and it provides a nice short-term loan to get a project up and running."

OUTER BOROUGHS GET A TURN

Over in Queens, the city's Economic Development Corp. is overseeing a mixed-use project, Willets Point. Currently undergoing the environmental and land-use review process, the project is slated to

be spread out over 23 acres. Phase one of the complex will feature nearly 900,000 square feet of retail and entertainment; 500,000 square feet of office space; a 200-room hotel and 2,500 housing units, of which 875 units will be affordable.

Before completion, the site is expected to feature recreational uses, including modular athletic fields and community open space. This interim public recreation zone could include soccer fields, basketball courts, ice-skating and a multi-sport "bubble." Improvements to the Van Wyck Expressway also are part of the project. Construction is slated to start in 2014 and should take approximately 10 years.

The project also is being developed by Queens Development Group, a joint venture of Sterling Equities and Related Cos. Funding is coming from \$100 million in city capital funds for demolition, remediation, infrastructure and permanent improvements to the land, as well as \$50 million from the city for offsite infrastructure work. The return to the city will include \$3 billion in private investment. During construction, the project will generate over \$310 million in new tax revenue and, once operational, will account for over \$150 million in new annual tax revenue.

Lastly, Staten Island may finally get on the map with Harbor Commons, a \$230-million, 350,000-square-foot outlet center, a 200-room hotel and, nearby, the world's tallest Ferris Wheel. Developer BFC Partners did not respond to requests for comment.

"The city is in a much better position now to support development, says the NYBC's Anderson. "Things really plummeted in 2009, and it took us a while to come back, but we are coming back." ♦