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A final countdown for FiDi

Talk about the Financial District becoming a 24-hour neighborhood has been underway for several years now. It is still not there, but the latest wave of real estate activity could just provide the surge needed to change that.

In this month's Q&A, The Real Deal marked the anniversary of the World Trade Center attacks by talking to residential and commercial brokers about the real estate market in the neighborhood. The topics ranged from the recent progress at the World Trade Center site and the redevelopment of Brookfield Place across the street to the host of new residential developments — like Silverstein Properties' Four Seasons Private Residences and Michael Shvo's 22 Thames.

Sources said despite all of the recent development, residential renters and buyers are still flocking to FiDi as a value market. For families priced out of other Downtown neighborhoods, the area offers more space at a better price. Meanwhile, commercial tenants are also finding deals in the neighborhood, despite the fact that office rents are rising.

In addition, the construction of the Fulton Street transit hub and the South Street Seaport redevelopment are making the area more attractive.

Nonetheless, challenges remain as the area continues to struggle to shed its reputation for being an after-business-hours ghost town.

For more on the disparity between the east and west sides of the neighborhood, which price points are performing best and which new projects are drawing the most excitement, we turn to our panel of experts.

RESIDENTIAL

Ariel Cohen

broker, Douglas Elliman

With the anniversary of Sept. 11 approaching, it's hard to ignore the significant progress made at the World Trade Center over the last few years. How is that affecting residential activity in the Financial District? How much is residential activity up or down by compared to the recent past?



The Financial District is at a point of no return. We have seen prices jump several hundred dollars per square foot, in some instances, in the past year or so alone. The Downtown boom we experienced a few years ago does not compare to what we are seeing now.

What price ranges are seeing the most activity today in the FiDi residential market, and how does that compare to the recent past?

Prices generally range from \$700,000 to \$5 million and they are increasing, especially with the 17 or so new projects in the pipeline.

New residential projects in FiDi include 50 West Street by Time Equities and planned residential projects like 22 Thames, a development site Michael Shvo just purchased. What upcoming projects are you most excited about in FiDi?

I am very excited about the Four Seasons Residences. I sold a two-bedroom there for nearly \$3,000 per square foot. It's going to raise the bar for Downtown. I'm also excited about Shvo's 22 Thames project. I'm interested to see what the finished product will look like.

Shvo paid a steep price for the site and is reportedly redesigning it as condos. Do you think the market will lean more toward condos than rentals in coming years, because of the high land prices?

The market is going to lean more toward condos in the short term. High land prices aside, the demand for new condos is extremely high, and developers will continue to push the condo trend.

How long are residential condos staying on the market in FiDi these days, and how does that compare to the recent past?

They trade in about 90 days, creating a much faster absorption rate than we've experienced in the past.

When the residential wave first hit FiDi, the area was not a 24-hour neighborhood. Do you consider it a 24-hour neighborhood yet? What's still missing for residents there?

FiDi is not quite a 24/7 neighborhood, but it's not a ghost town after 5 p.m. like it once was. In many ways, this has helped to keep prices at a relatively good value. The area is rapidly changing, however. New restaurants, hotels, and lounges have encouraged a new nightlife. However, the area is still lacking major anchor retailers.

What are the biggest challenges to marketing residential properties in FiDi right now?

Some properties in FiDi really lack views. And, not everyone is sold on living in the area, but that is changing. The emerging culinary and nightlife scenes have changed the dynamic of the neighborhood, and developers are taking note.

Adrienne Albert

CEO, the Marketing Directors

What's going on with residential condo and rental prices right now?

Rental prices for doorman buildings in the Financial District are up approximately 3 percent from a year ago. The average price for a one-bedrooms is \$3,949, and \$5,220 for a two-bedroom. [On the condo side,] the average price is approximately \$1.3 million, with an average [asking] price per square foot of about \$1,300 — including new developments and resales in older buildings. That price per square foot is up from approximately \$1,180 in 2013.



What price ranges are seeing the most activity today in FiDi?

The most popular range for rentals in the Financial District is \$3,500 to \$4,000. For sale, it is under \$1 million. FiDi is still considered a value area. However, with the new construction, offices, and retail, we see these prices rising.

Do you think the FiDi market will lean more toward condos than rentals in coming years because of the high land prices?

There is very minimal new rental inventory in the Financial District, and there is a strong demand for it, which we expect developers to pay attention to. However, unless land can be acquired at a price that can be supported by a rental project, we do not anticipate seeing as many rental projects in the future.

How long are residential condos staying on the market in FiDi these days?

With inventory at an all-time low, condominiums are not on the market very long. The current active FiDi condos have an average of 140 days.

There's been endless talk about foreign buyers in the residential market in New York City. Are you seeing more foreign buyers in FiDi today than you were in the recent past?

Unless we are dealing with a property like W Downtown, which has a strong internationally accepted brand, foreign buyers are not as familiar with FiDi as they are with some other parts of the city. However, that is changing, as restaurants and clubs locate there.

What are the most surprising trends you see in the FiDi residential market today?

The lack of rental projects in the pipeline.

What most concerns you about the neighborhood?

This was once a neighborhood that people enjoyed living in because it had a quiet nature and a low profile. However, the face of this neighborhood is changing so rapidly that there could be some people who aren't as comfortable with the direction this neighborhood is taking.... This change may deter some buyers, but we think there is a broad appeal that has attracted buyers from other demographics and locations.

Daniel Hedaya

President, Platinum Properties



What's going on with residential condo and rental prices in FiDi right now?

The average prices are up in FiDi. With developments like the Four Seasons, 50 West Street, and other high-end product hitting the market, I think that it will continue to push the pricing even higher.

What price ranges are seeing the most activity in FiDi, and how does that compare to the recent past?

We are seeing a good amount of families looking in the \$1 million to \$3 million range. Families who are priced out of Tribeca and other Downtown neighborhoods now find FiDi to be a destination neighborhood. With the opening of more schools and parks, I think this will increase.

Which upcoming projects are you most excited about in FiDi?

I think 22 Thames is going to be amazing. Also, the opening of 30 Park Place will bring a high-end hotel to the area, which should be really great.

Are you seeing more foreign investors today than you were in the recent past?

I think the reason foreign investors are targeting [building purchases] in FiDi is because the rental market is far ahead of the sales market. So you can still buy properties for \$1,000 to \$1,500 per square foot that command rents comparable to other neighborhoods in the city. It's one of the few places you can get a decent rental yield on a monthly basis.

Tali Berzak

Associate broker, Nest Seekers International



What's going on with residential condo and rental prices right now in FiDi?

There's an interesting phenomenon in the residential market in the Financial District today. There are some buildings that average \$2,000 to \$3,000 per square foot, while others average \$1,200 per square foot. [In general], condo prices are up from a year ago, as are rental prices. In the rental market there was shadow inventory, a lingering effect from Hurricane Sandy that affected last year's summer market, so this past spring/summer season was relatively stronger.

What upcoming projects are you most excited about in FiDi?

I think both 50 West Street and 30 Park Place are equally important because they flank the neighborhood and will set the bar for future projects. As someone who loves conversions, the Woolworth Building will be astounding ... and I'm definitely curious about 5 Beekman.

How long are residential condos staying on the market in FiDi these days?

It's difficult to [use days on market as a] gauge because the list price has a major effect on this indicator. A recent phenomenon has been to bring a unit to market at a number that is under the market value to draw in sizable crowds and multiples offers and then have the property bid up — above the list price. [But] overall, I think the average is comparable to the rest of the city, approximately 80 days.

What are the biggest challenges to marketing residential properties in FiDi right now?

Honestly, the challenge is still explaining the neighborhood. Many purchasers aren't aware of all the changes and improvements that have been — and will be — taking place. Getting the word out and emphasizing that the neighborhood has become a residential area has been the biggest challenge.

COMMERCIAL

John Wheeler

Managing director, JLL



How is the opening of the Sept. 11 museum, the near-completion of One World Trade and the redevelopment of Brookfield Place affecting commercial activity in FiDi?

These new developments are increasing traffic by office workers, residents and tourists. Developers and retailers have taken note, particularly along Broadway immediately to the east, where retail values have shot up and high-quality retailers are making unprecedented commitments to Lower Manhattan — from Zara to Urban Outfitters to the Gap.

We know there's been a lot of leasing activity in FiDi recently. But a lot of that has taken place at Brookfield Place. What's going on with office-leasing activity in the rest of FiDi?

Lower Manhattan has performed beyond expectations. Several years ago, our forecasts for 2014 envisioned a downside vacancy rate approaching 20 percent, given the World Trade Center supply and major reversions pending in the market. Instead, today we stand at 11.7 percent overall vacancy, off a high of 14.5 percent in the

second quarter of 2013 — just over one year ago. Class A vacancy has dropped to 12.6 percent, down from 16.6 percent in the second quarter of 2013.

What’s going on with asking rents for office space in FiDi? How do they compare to the recent past?

The Downtown overall market set a record for asking rents in July, and Class A asking rents are above pre-financial crisis highs. This is as a result of the newer, higher-priced product being added to supply at 1 and 4 WTC, as well as price increases virtually across the board based on leasing volume from tenants migrating to Lower Manhattan.

Cushman & Wakefield recently noted in a market report that there are no more “\$30-a-square-foot rents” in Lower Manhattan. It used to be that companies could go Downtown for discounted deals. Are those days over?

We agree there are very few options in the \$30s today. There is, however, a continuing rental discount to comparable assets in Midtown South and Midtown. This spread is narrowing, and as the final pieces of the transit hubs are completed at the Fulton Center and the World Trade Center, we expect the narrowing to continue.

One World Trade recently dropped its asking rents to attract more tenants. Brookfield, on the other hand, has seen strong leasing activity. Why is Brookfield landing so many more deals?

Brookfield has executed a comprehensive repositioning ... and better integrated with the rest of Lower Manhattan. They also have the only commercial waterfront location for an office complex in New York, which they’ve enhanced by creating over 70,000 square feet of waterfront restaurant options, ranging from white tablecloth [establishments] to the Hudson Eats, the popular grab-and-go destination featuring 14 New York food options.... The office space also offers high-density layouts, high ceilings and views. Tenants there can convert setbacks into usable terraces, which has proven to be popular. Lastly, Brookfield Place is priced at a slight discount versus the brand new towers.

What’s going on with office leasing on the east side of FiDi?

Employers place a premium on proximity to the transit hubs, as well as the newer product available in this sector. The Water Street corridor, which JLL tracks as a submarket, underperforms the Financial District and World Trade Center submarkets. Despite views, generally high-quality product and institutional ownership, it has to trade at a discount to be competitive. Having said that, properly positioned assets have recorded some notable successes, including 1 New York Plaza, which attracted MacMillan Publishing from Midtown South and Revlon from Midtown. Nearby, 85 Broad Street [brought in] Nielsen in a relocation from Midtown South. Still, Class A vacancy in this submarket is at 16 percent, and average rents are nearly 20 percent off the WTC averages.

There have been a number of high-profile building sales in the area lately, including 80 Broad, which just sold for three times what it sold for three years ago. What’s going on with the investment sales market in FiDi today, and how does that compare to the recent past?

Investor interest has never been as broad and deep as it is today. We’ve seen an influx of international investors, note Chinese-based Fosun acquiring One Chase Manhattan Plaza.... The owner-operators continue to be active as well, with RXR’s purchase of 61 Broadway, Harbor Group’s acquisition of 55 Broadway and Harry Macklowe’s acquisition of 1 Wall St.

FiDi has seen a significant number of residential conversions of office space in recent years. Do you expect that to continue, or do you think that wave is nearly complete?

We expect residential conversions and ground-up development to continue. However, as the office sector continues to gain [steam], there is likely to be less compelling fundamentals driving future residential conversions as a percentage of new activity.

The redevelopment of South Street Seaport is starting to pick up traction. Do you think it will have a significant impact on the commercial market in the area, or do you think most will consider it something aimed at tourists?

The Seaport redevelopment will anchor the east side of what is developing across Lower Manhattan's Fulton Street, which has attracted new and enhanced restaurant options.

Brad Gerla

Executive vice president, CBRE

How is the opening of the Sept. 11 museum, the near-completion of One World Trade and the redevelopment of Brookfield Place affecting commercial activity in FiDi?

Commercial activity in the Financial District is on fire. All of the factors [you mentioned] have helped and will continue to help. The key is net absorption. The Financial District is currently at 524,000 square feet of positive absorption, compared to last year same time, when it was at negative 1.4 million square feet.

What's going on with asking rents for office space in FiDi?

The Financial District submarket's asking rents are averaging at \$43 per square foot, up a little over 4 percent from last year. The last time our asking rent was this high was in 2005, when it was \$47.94.

It used to be that companies could go Downtown for discounted deals. Are those days over?

You can still find \$30s deals Downtown. There are still tremendous discounts for companies relocating to Downtown.

Do you expect residential conversions of office space in FiDi to continue, or do you think that wave is nearly complete?

I think the residential conversions will start to slow down because there is plenty of product available. The big one coming to market soon will be 70 Pine Street.

What are some of the other factors influencing FiDi commercial activity right now?

The biggest impact to commercial activity has been the soon-to-be-completed Fulton Street station and the highly anticipated completion of the Santiago Calatrava PATH station. Also, the emergence of Brooklyn and Jersey City as convenient and excellent places to live for the young employees working Downtown.