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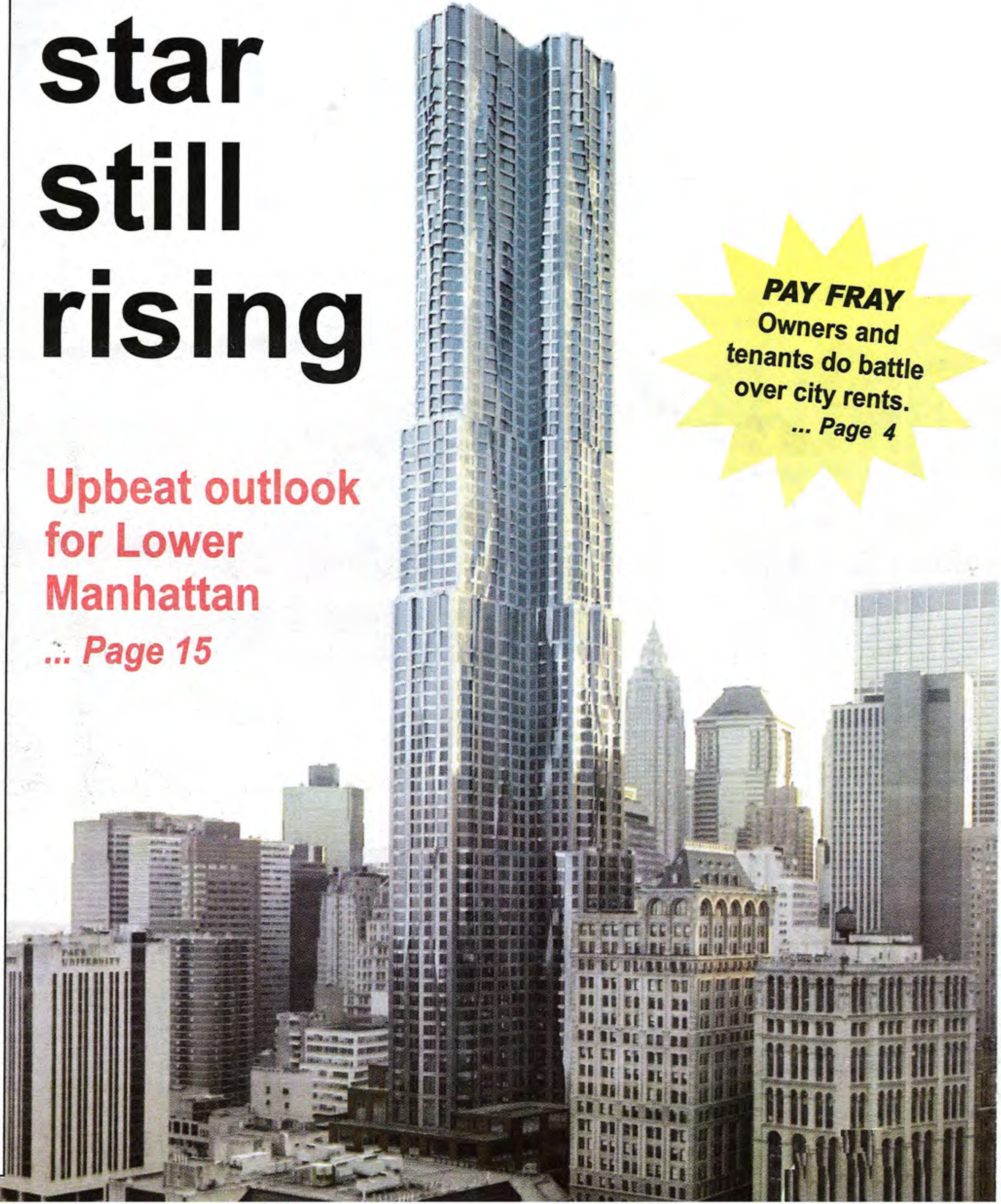

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COVER STORY

Downtown's star is still rising

By Jason Turcotte

Growing by leaps and bounds since 9/11, the downtown market undoubtedly hit a roadblock once the downturn accelerated last fall.

With the financial collapse in its own backyard, news of additional World Trade Center delays and a stagnant retail market, many wonder when Lower Manhattan will finally have its day in the sun.

Earlier this month, developer Bruce Ratner certainly showed his confidence in the neighborhood when he announced that, following much speculation, he would press ahead with his Beekman Tower which, at 867 ft. will be the tallest residential tower in the city.

Ratner, who negotiated with construction unions to trim the costs of the project, called the building — which will also have a school and healthcare center that's part of the New York Downtown hospital — "an extraordinary skyscraper that will have a transformative effect on the downtown area."

> It's on its way. It's a work in progress... People are coming down here for value — there's no ifs, ands or buts about it.
>
> — Ronnie Diamonde

Larry Silverstain is also committed to his 99 Church development, an 80-story Robert Stern-designed residential tower atop a Four Seasons Hotel. Foundation work at the site is ongoing, a spokesman told Brokers Weekly, and will continue until completion later this summer. "At that point, we hope to have the construction financing that will enable us to complete the project," said the spokesman.

While those who work the market say the Financial District is a few years away from becoming the vibrant 24-7 community investors and developers are striving for, its real estate remains healthy — all things (economic) considered.

"It's my take that this neighborhood has really come into its own..." said Sang Oh, executive vice president of sales and marketing for Platinum Properties. "But I think, three years from now, downtown will be done — in terms of what the pioneers have hoped for."

The progress, pre-recession, has been impressive.

Downtown's population has grown tremendously since the terrorist attacks, climbing from 22,904 in 2000 to nearly 54,000 today. And housing stock has increased by more than 100% since then, with more than 30,000 residential units projected by 2011 (some of which are coming from two dozen new projects in the pipeline). Also by 2011, the city expects the area's population to reach 60,000.

But Wall Street's collapse has stymied that progress as challenges — on both the commercial and residential front — have surfaced since the fall of Lehman Brothers in September 2008. Since that day, sales of any kind have been scarce and some projects are facing problems.

"Again, it became a Ground Zero for real estate when we were working so hard to make it a desirable neighborhood to live in," said Antonio del Rosario, president at A.C. Lawrence & Company.


RONNIE DIAMONDE

According to Nick Petkoff, first vice president of sales at Massey Knakal Realty Services, banks filed to foreclose on Battery Park's Rector Square condo project; construction has stopped at 5 Franklin Place after a financing snafu; 133 Greenwich Street remains vacant despite the 2007 sale to a Florida-based developer; and no new site plan exists for 151-171 Maiden Lane.

Petkoff, who just compiled his June 2009 downtown market report, noted, "Most severely affected by the banking sector meltdown and the downward spiral in the economy were residential and hotel development sites."

For example, hotel developers Sam Chang and John Lam have shelved projects at 221 Pearl Street and 50 Trinity Place. In addition, 225 Rector and 25 Broad Street are reportedly experiencing financial troubles.

"I do think since the exodus of the Wall Streeters, the Financial District has become a challenging market once again," del Rosario said.

In the rental market, del Rosario says pricing has come down 25% and some landlords have offered as much as three months free rent to attract tenants.

On the sales side, things are even messier, with many buyers trying to escape deals under contract as residential values continue to fall. In fact, del Rosario has one deal that went into contract in 2007 that is now in litigation because the buyers are looking for an escape after witnessing the asset's value decline from $1 million to $700,000.

Like most markets, the high-end products are taking the biggest hit as residents with fat financial sector paychecks have lost their jobs and moved elsewhere. According to the Downtown Alliance, the average household income in Lower Manhattan topped $240,000 pre-recession.

The market's emergence has also been slowed by construction, which is proceeding at a snail's pace since the economic crisis.

Another 1,277 hotel rooms are under construction downtown. A number of new residential projects are under development including: The Setai, a 167 luxury unit hotel/condo; 39 Whitehall, a 78-unit condo; the 223-unit W Hotel & Residences; the 50 West Street hotel/condo project; the 189-unit addition to 201 Pearl Street; and both 200 and 400 North End Avenue, in Battery Park. And let's not forget the massive — and delayed — World Trade Center towers.

But all of that scaffolding, noise and eyesores take their toll on downtown pricing.

"It's like an excavation project. It's like walking around the Grand Canyon down there," said del Rosario. "It's all a construction site, so you can't pay a premium for living there."

And unlike other Manhattan markets, del Rosario believes there's a much more cause-and-effect relationship between the commercial and residential sectors downtown, meaning he thinks the office sector is dependent on the residential market's turnaround.

Petkoff said you could count on one hand the number of commercial sales downtown this year. With AIG formerly occupying two million square feet downtown, Bank of America relocating employees to Bryant Park and Goldman Sachs seeking to shed space at 77 Water Street, the downtown office market is looking a lot less active.


BEEKMAN TOWER

According to Cushman & Wakefield, first quarter overall office vacancy topped 8% downtown while overall office pricing dropped to $44 psf. Most recently, the city's Economic Development Corporation reported that class A direct downtown office rents fell to $53 psf in May.

Further indication of a weakened Financial District lies in the struggles of hotels to fill rooms and charge competitive rates. First quarter downtown hotel occupancy fell 14% to 69%, with the average room rate dipping to $222 per night – a 35% decline from the first quarter of last year.

"The neighborhood, and the economy as a whole, still has a long way to go before coming back," said Platinum's Oh.

Those who know the market well believe the key lies in building up downtown as a vibrant 24-7 community. Tax abatements, performing public schools and bang for their buck brought people to Lower Manhattan after 9/11. Now del Rosario believes the answer lies in marketing downtown to Wall Street workers as a top residential choice over the Upper East Side or Connecticut.

But for those without the history of downtown's progress, Oh says the market remains a tough sell. He said those who came here to rent after 9/11 are much more prone to buying there today, but newcomers have their reservations.

"They're still a little turned off. They still see the Financial District as a little like Harlem — a fringe

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LARRY SILVERSTEIN

Downtown's star is still rising

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market," said Oh, who also cited the Fulton station downsizing as another detractor. Perhaps the biggest concern for a prospective buyer is downtown's lack of retail. But that too, said Oh, has progressed and continues to improve.

As a resident living in downtown just a few years ago, Oh remembers having just one grocer and one deli to shop at. The area resembled a ghost town after 5 p.m. and on weekends, with few service-oriented retailers available.

But retailers have begun investing in downtown. Since that time, Oh has seen Chipotle, Gristedes, Dunkin' Donuts and Sleepy's Mattress open. Residents can see stroller pushers and dog walkers at night, and places like the South Street Seaport and Stone Street offer pods of nighttime activity.

Whole Foods has come to the area, while high-end retailers like Tiffany's and Hermes set up shop, a further sign of progress there. This year downtown has witnessed the opening of True Religion Jeans, at 14 Wall Street; Starbucks, at 110 Church Street; Papaya Spa, at 125 Fulton Street; Cafe Groppi, at 32 Water Street; T-Mobile, at 125 Maiden Lane; Onda restaurant, at 229 Front Street; Bean & Bean Organic Coffee, at 71 Broadway; Duane Reade, at 17 John Street; Leo's Bagels, at 3 Hanover Square; Eyebrow Zone Salon, at 37 John Street; The Pump Energy Food, at 80 Pine Street; and Babesta Cribs, at 56 Warren Street.

But retail growth has slowed considerably post Lehman Brothers. And in November 2008, General Growth Properties, one of the country's largest mall owners hired DTZ Rockwood to sell the South Street Seaport and both companies filed for bankruptcy earlier this year.

Brokers continue to hear from buyers that downtown remains under-serviced retail wise. And as Lower Manhattan still struggles to shed its "ghost town" reputation, the area has a long way to go before becoming the 24-7 community people in the industry envision. "It's on its way. It's a work in progress," said Ronnie Diamonde, senior associate at The Corcoran Group.

But while downtown retail may still not be up to snuff, the residential market has held its own, according to Diamonde, and prospective buyers are unfazed by news of World Trade Center delays. For a good bargain, many are still willing to bank on downtown's future. "People are coming down here for value — there's no ifs, ands or buts about it," Diamonde said.

According to the Downtown Alliance, a broker survey indicated that tour numbers were up in 2008. In addition, the first quarter of this year saw a 2% increase in downtown residential prices and rental vacancy remained flat at 2.2% (lower than the Manhattan-wide vacancy of 2.4%), proving downtown interest has not atrophied.

Oh said that although sales transactions are still scarce, activity is beginning to pick up. There is evidence of new downtown hires coming into the residential market and interest rates remain low. Moreover, del Rosario said demand is up for studios and one-bedroom units, and that bankruptcy lawyers, financial strategists and accountants have kept the rental market fairly active.

Diamonde, who estimates that most new residential developments are 70-80% occupied, said that, in addition to pricing, tax abatements, unique product types and creative developers are also generating interest in downtown.

Oh said many developers are offering rent-to-buy options that provide people the option to "try out" the neighborhood for a year before weighing in on the decision to buy. And with developers making a concerted effort to listen to tenants and buyers, Diamonde believes the downtown market can only go up.

"You have motivated sponsors and interested buyers," Diamonde said. And when you have that formula, there's only one way to go."