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Fired up over Hell's Kitchen

An influx of new developments and new residents is benefiting the West Side neighborhood amid a hot market

By **SASHA VON OLDERSHAUSEN**

Hell's Kitchen spent much of its history with a grimy, some might even say seamy reputation, but in the past few years, the Midtown West neighborhood has continued its makeover into an increasingly higher-end locale.

In this month's Q&A, *The Real Deal* talked to new development marketing firms, brokers and developers with a stake in Hell's Kitchen about the impact of new construction in the neighborhood and the growth of Hudson Yards just to its south, as well as what development opportunities are still available.

With prices edging higher, but not on par with nearby Chelsea and the Meatpacking District, Hell's Kitchen is seeing a new crop of younger residents renting studios in the area.

But challenges still exist, developers say, especially because of a dearth

of transportation serving the area.

And while the neighborhood's edginess is appealing to locals, it is difficult to market that quality to potential buyers abroad. Vickey Barron, a broker at Douglas Elliman, said branding the neighborhood is still tough.

"Hell's Kitchen is still a neighborhood that's coming into its own," Barron said. "This is not too different from when I sold in the Meatpacking District 15 years ago. Now the Meatpacking District is a brand of its own. Hell's Kitchen is also on its way to being its own brand. Years ago, most customers were local people who were already committed to the neighborhood. Now, people are migrating from out of state."

For more on the changing neighborhood, the influx of affordable units spawned by the new mayoral administration, and what the recent rezoning of 11th Avenue means for residential development there, we turn to our panel of experts.

Sofia Estevez

vice president, TF Cornerstone



Hell's Kitchen is often mentioned as one of the more popular neighborhoods for renters, particularly for two-bedroom

apartments. What price ranges and housing types are performing best right now in Hell's Kitchen, and how does that compare to the recent past?

We have three buildings in Hell's Kitchen. At 444 West 35th, an 86-unit non-doorman building, it's 100 percent occupied all the time. When we first built that building, in 1989, it was not a neighborhood where people were willing to go. Now, we get great rents, and people love the area. Gritty is not a bad thing anymore. Gritty is cool, it's hip. I credit the gay community for traveling up the West Side, first in Greenwich Village and Meatpacking, and extending the boundaries of Chelsea, and now going to Hell's Kitchen and sort of changing the way neighborhoods are perceived. Our rents haven't increased dramatically beyond our projections. Our best performing product is a two-bedroom, one-bath, because you get the convenience of the two-bedroom, but the one bathroom means it's at a lower price point.

What sort of opportunities still exist for developers in Hell's Kitchen?

Not much. The prices are so high that it's really hard to find development sites. The city is tapped out. There's not that much left.

Who are the active condo buyers in Hell's Kitchen right now?

The gay community is moving that way, which is a good thing. And there is a population of people that don't want to be in the neighborhoods that have become so trendy. A lot of people who live in the West Village are now moving to Hell's Kitchen and other neighborhoods that are less overcrowded on the weekends with tourism.

There are three new affordable housing developments planned for Hell's Kitchen, including 210 units at 525 West 52nd Street. Do you think Mayor de Blasio's efforts to increase the supply of affordable housing will induce more development in Hell's Kitchen?

I don't think anyone in New York City is going to build anything without an affordable component any longer. Both our projects in the Hudson Yards have an affordable component. Our development at 505 West 37th Street is 20 percent affordable. And 455 West 37th has 394 apartments, 20 percent of which are affordable.

David Pickett

CEO, Gotham Organization



What price ranges and housing types are performing best right now in Hell's Kitchen, and how does that compare to the recent past?

Right now the studios and alcove studios are performing the best. That's certainly the case in this submarket and in a lot of other submarkets, because rents have gone up at a pretty fast pace in the last several years, while real in-

come isn't keeping up. Ten to 20 years ago, the average college graduate or MBA grad could afford a one-bedroom. Now, they even struggle to afford a studio. Unless you have a couple to qualify for your average one-bedroom, you need to make \$150,000 a year or something like that. Studios in our buildings are anywhere from \$2,800 to \$3,100. The alcoves are \$3,100 to \$3,400. The one-bedrooms are anywhere from \$3,500 to \$4,300.

For many years, Hell's Kitchen was known as a gritty neighborhood, and was priced accordingly. Is there any discount for renters or buyers in the area anymore?

It's a vastly improved neighborhood and it's going to continue to be that way, but I think it's still one of the more affordable neighborhoods in the city. It's definitely a discount to Chelsea, the West Village or the Upper West Side.

What sorts of opportunities still exist for developers in Hell's Kitchen?

Most of Hell's Kitchen is a historic district, so on the mid-blocks or the avenues between Eighth Avenue and 10th Avenue, there's not much you can do. They rezoned the east side of 11th Avenue to allow for residential development, but there are height restrictions of 120 feet. I think you'll see people building on that side of the street, but they have to figure out how economical it is to have those limitations. There's a lot of room for continued development in Hell's Kitchen, and there's a reasonable amount going on right now. There's somebody building something right across from us on 44th Street between 10th and 11th. Silverstein has something on 41st Street.

Is there room for commercial development in Hell's Kitchen, or is it going to remain mainly residential?

In general, it's difficult to build an office building these days. The economics are just not really there. There's quite a bit planned for the "Yard." But I'd be surprised if any office building went up in Hell's Kitchen.

What are the biggest challenges to marketing properties in Hell's Kitchen today? How do those challenges differ from what you've seen in recent years?

Mostly, it's the issue that your closest subway is at Eighth Avenue. That remains an issue for people. We've done things to combat that. We run a shuttle at Gotham West that comes every 15 minutes and does a loop to Time Square and Bryant Park each morning.

What are the most concerning trends you're seeing in Hell's Kitchen right now?

You're always dealing with a lot of competition, but at the end of the day, it helps to solidify the neighborhood. I wish the city had put a subway stop on the 7 train at 42nd and 10th Avenue. It's hard to understand why that didn't happen given the tremendous amount of people living in the area. Eventually, sanity will prevail, and there will be a subway.

Do you think Mayor de Blasio's efforts to increase the supply of affordable housing will induce more development in Hell's Kitchen?

I don't think it's a Hell's Kitchen thing. Affordable development and market-rate development have been inextricably tied together for the last 20 years. More than half of all rental buildings being built in the

last 20 years have been 80/20s. The question is, will there be programs that will create additional affordable housing by creating quid pro quos for developers who have already spent a lot of money on land, so that they can feasibly produce a return for themselves and their partners? And I think the administration understands that, and I think eventually we'll get there. They're going to have to figure out where more density can be tolerated.

Stephen McArdle

licensed associate broker,
Halstead Property Development Marketing



What price ranges and housing types are performing best right now in Hell's Kitchen, and how does that compare to the recent past?

The neighborhood has matured tremendously over the last two years and there is greater demand for larger two- and three-bedroom units, in addition to the continuing demand for studio and one-bedroom units. At 540 West, we have two-bedroom units in contract at over \$2.65 million and currently have available two-bedroom units starting at \$1.655 million.

How long are properties staying on the market in the area, and how does that compare with a year or two ago?

According to [our] internal data, average absorption [time] in Hell's Kitchen decreased on closed sales from 2012 to 2013 at over 20 percent. Additionally, time on the market for closed sales in 2013 compared to 2014 has decreased at over 35 percent.

How is the rapid increase in activity just south, in the Hudson Yards area, affecting the market in Hell's Kitchen?

I believe the historical transformation of the Hudson Yards was the trigger for many of the recent buyers in Hell's Kitchen. Seeing such a significant coordination of both public and private investment, including the extension of the No. 7 subway line, has confirmed for many buyers and renters that this neighborhood is an excellent location to call home from a quality of life perspective and a value appreciation perspective.

Is there room for commercial development in Hell's Kitchen or is it going to remain mainly residential?

While there is always room for both commercial and residential developments, it appears to me that the significant commercial component of the Hudson Yards will absorb much of that sector's needs, thereby increasing the continued residential development with Hell's Kitchen.

What is the retail sector like in Hell's Kitchen right now? Are stores at the new developments going up geared more to residents or is it tilting more toward tourists?

Very significant national and international companies are choosing to locate in Hell's Kitchen, including Kenneth Cole, Prada, Kimpton Hotels and Ink48. The retail sector is adapting to the residential nature of Hell's Kitchen, and I am seeing the uses as much more targeted for locals as opposed to tourists.

Daria Salusbury

senior vice president, Related Companies



Are you seeing residential sales accelerating in Hell's Kitchen? How long are properties staying on the market, and how does that compare with

a year or two ago?

There's very little inventory in the sales market, and properties are moving very quickly. When something comes on the market and it's well designed and has a great sponsor, that building will move fast. When you have a confident marketplace, then inventory moves at a fairly brisk pace; and this is what we are seeing in Manhattan.

For many years, Hell's Kitchen was known as a gritty neighborhood, and was priced accordingly. Is there any discount available anymore?

I don't think "gritty" is an accurate description of the neighborhood anymore and it doesn't reflect what we're seeing in the marketplace. When you look around the neighborhood, there is tremendous growth and a dynamic cultural mix with great restaurants, nightlife and shopping. There are cranes everywhere. And many of the developments coming online

"It's a vastly improved neighborhood and it's going to continue to be that way, but I think it's still one of the more affordable neighborhoods in the city."

DAVID PICKET, GOTHAM ORGANIZATION

are offering luxury apartments with a variety of amenities — not the type of residences that have to offer discounts to attract renters or buyers.

Who are the active buyers in Hell's Kitchen right now?

Hell's Kitchen tends to attract a lot of people who are working in the tech and creative industries. It has become a very vibrant neighborhood and it attracts people with vibrant personalities.

Vickey Barron

licensed associate real estate broker,
Douglas Elliman



What price ranges and housing types are performing best right now in Hell's Kitchen, and how does that compare to the recent past?

In Hell's Kitchen, condos with four-plus bedrooms are currently performing the best. The current median [per square foot] price of condos in Hell's Kitchen is the following: four-plus-bedrooms are at \$2,255, three-bedrooms are \$2,184, two-bedrooms are \$1,768 and one-bedrooms are \$1,452. With the increase in office space and commercial space in Hell's Kitchen and the surrounding area, more people are drawn to living in the neighborhood. Investment-wise and service-wise, people are drawn to condos.

Who are the active buyers in Hell's Kitchen right now?

A wide variety of people are attracted to Hell's Kitchen. What I have not seen is Upper East Siders, but I am getting them from Tribeca, Chelsea and the Upper West Side. We do have a few pied-à-terre buyers attracted by its proximity to the Theater District. I also see people with larger homes in New Jersey who want a second home. Hell's Kitchen has easy access to points in, and outside of, Manhattan.

What are the biggest challenges to marketing properties in Hell's Kitchen today? How do those challenges differ from what you've seen in recent years?

Years ago, most customers were local people who were already committed to the neighborhood. Now, people are migrating from out-of-state or from international locations. So, the biggest chal-

lenge is to tell a story that paints a picture showing the beauty of Hell's Kitchen. While local people adore and embrace Hell's Kitchen, people abroad are confused by it.

What are the most concerning trends you're seeing in Hell's Kitchen?

Probably the most concerning trend is rising prices. Eventually, it will push some people out of the neighborhood. The mom-and-pop shops are the essence

of what makes Hell's Kitchen so quaint and neighborhood-like.

Charles Bendit

co-president, Taconic Investment Partners



What are you seeing in terms of prices? How much are they up or down by compared to the recent past?

Rents today are probably between \$70 and \$80 per square foot in this particular submarket. Along 42nd Street, it's the same. Some apartments are in excess of \$80, some are a little below, but the market is solidly between \$70 and \$80. When we started underwriting our development [525 West 52nd Street], rents were in the \$67 to \$73 range, and in the last five years, they have moved up \$5 to \$8 a foot.

What sorts of opportunities still exist for developers in Hell's Kitchen?

There are still sites that are not developed along 11th Avenue. The east side of 11th Avenue was rezoned to permit residential. North of 57th Street, most of that has filled in, but on that whole stretch of 11th Avenue, there are still development opportunities. And the new administration is looking for new opportunities for affordable housing.

Who are the active buyers in Hell's Kitchen right now?

We expect that there will be a younger demographic, while the middle income and moderate income apartments will be rented out to family types — people who are being priced out at the high end, but make too much money to be considered for low-income housing.

What are the biggest challenges to marketing properties in Hell's Kitchen?

The biggest challenge is transportation. There is no subway line that serves that part of the city. There are buses that go up 11th Avenue and 10th Avenue, and buses that go across 57th Street. The amount of mass transportation needs to be increased to provide service farther west.

How is the increase in real estate activity just south in the Hudson Yards area affecting the market in Hell's Kitchen?

I think it's reflective of people's expectations for how that area is going to fare in the next 15 years. People are very bullish about that area and the impact it will have on surrounding sites. I think there's a huge move to the west. We see that in Chelsea. The West Side of Manhattan has really seen a huge transformation. I think it's an emerging market, and I think as more people move into the area, it'll become a more residential neighborhood. **TRB**