THE REAL DEAL
NEW YORK CITY REAL ESTATE NEWS

October 2014

New players get in the NYC development game

A look at the upstarts and established national builders making inroads in the city since the bust

October 01, 2014
By E.B. Solomont

From left: Bluejay Management's Marc Jacobowitz, 341 Eastern Parkway, 325 Lexington Avenue and Lee Bloch of Carmel Partners

New York City's strong residential market has prompted a slew of new players to join the development fray here.

While the majority of the 6,000 new development units set to come online in 2015 are being built by household names such as Extell Development, Related Companies and others, a new batch of first-time developers, along with some developers well-established in other parts of the country, have thrown their hats into the New York City ring since the downturn.

"When you have an up market, everyone thinks they can do it," said Andrew Barrocas, CEO of the brokerage MNS. "They think, 'When the market's as hot as it is, even if I make mistakes, the market can absorb them,' " he said.

But there are plenty of barriers to entry in today's market.

After getting burned during the downturn, banks are still conservative about to whom they'll lend money. As a result, many first-time developers are turning to other sources of capital. For those who do secure financing, land prices are sky-high and available parcels are few and far between.

In addition, determining the right time to jump into the development game is not a science. That's especially true because it takes about three years to bring a new building to market. So those who picked up land for relatively cheap after the downturn are now reaping the rewards of higher condo prices and a lower overhead. Those looking to buy development sites today, on the other hand, are faced with record-breaking land prices that make penciling out projects harder.

The proof is in the numbers: Manhattan land prices hit an average of $511 per square foot during the first half of the year, compared with $377 during the dark days of 2009, according to Massey Knakal Realty Services. In Brooklyn, meanwhile, prices hit $166 per square foot during the first half of the year, compared with $127 in 2009.

Still, some 2,500 units are set to come online in 2014 — a 151 percent increase from 2013, according to data from the new development marketing firm Corcoran Sunshine.

The new players range from big names in other industries, such as former L.A. Dodgers owner Frank McCourt, who paid $167.3 million for 360 Tenth Avenue in August 2013, to little-known developers such as the Losquadro family, who've long owned 870 Metropolitan Avenue in Williamsburg and are now planning a 20-unit rental there.

Not surprisingly, the established players coming into New York for the first time are targeting Manhattan more often than not, while those truly new to development are largely focused on untapped Brooklyn neighborhoods.

"The residential market has much more upside potential than the commercial/industrial side in North Brooklyn," said Anthony Losquadro, whose family previously housed their heating oil and HVAC installation business at 870 Metropolitan.

Whether all the newer players to the scene will succeed remains to be seen.

"Being a developer in a market like today's is not a challenge," Barrocas said. "It's being a developer in a down market, a challenging market; that's where it becomes more difficult."

Below is a look at some of the developers who've broken into the New York market since the last bust.

Bluejay Management

Since 2003, Bluejay Management's Marc Jacobowitz and Yerachmeal Jacobson have amassed a portfolio of more than 30 retail properties in New York.

But at the height of the recession, they snagged a retail space at the prime intersection of Eastern Parkway and Franklin Avenue, which prompted them to shift gears and dive into residential

development in Brooklyn. In 2009, their firm obtained a hard loan on the site, though according to public records, they didn't close on the $8.26 million purchase until 2012.

Bluejay built 341 Eastern Parkway, a 63-unit rental building in Crown Heights.

In May, the firm completed construction on a 63-unit rental building — with a sizable 8,000 square feet of ground floor retail — at the site 341 Eastern Parkway, in the rapidly gentrifying neighborhood of Crown Heights. The retail tenants in the building, which was dubbed 341EPW, include Capital One and Starbucks.

Leasing on the residential side launched in July and is currently 50 percent complete, with rents starting at $2,200 for studios and jumping up to $4,500 for large two-bedrooms. Dave Maundrell, whose brokerage Aptsandlofts.com is marketing the property, said Jacobowitz and Jacobson are up-and-coming on the residential scene.

In addition to 341EPW, Bluejay is working on two more residential projects in Brooklyn, where Jacobson said he sees continued "upside opportunities."

In late 2013, the firm paid $800,000 for 608 Ocean Avenue in Flatbush, where it's planning an eight-story, 20-unit rental. Also in late 2013, it shelled out $1.1 million for 258 Empire Boulevard in Crown Heights, where it plans to build 40 to 50 apartments.

Over the years, Jacobson said, Bluejay bought and sold residential buildings. But they were becoming increasingly expensive to run and manage. Jacobson said Bluejay has leveraged its prior relationship with lenders and investors for its current projects.

"Now the real way to add value is through development," he said.

In 2012, Anikstein paid $3.4 million for a vacant lot at 171 North 10th Street in Williamsburg.

Great Point Properties

After more than a decade in real estate finance, Great Point Properties' Darren Anikstein completed his first project, a 20-unit residential building in Williamsburg, during the summer.

Anikstein, who worked at Lehman Brothers, property management firm Walter & Samuels and Fortress Investment Group, launched Great Point in 2011.

With financial backing from family, he started as a hard-money lender, providing a $7 million loan to a condo developer in Tribeca for his first deal.

But then he himself got the itch to develop.

So in 2012, he paid $3.4 million for a vacant lot at 171 North 10th Street in Williamsburg. He then secured a $5.5 million building loan from First Niagara Bank in Buffalo to cover a chunk of the $11.25 million development costs, according to public records.

Anikstein said he personally guaranteed 50 percent of the loan, which he probably would not have needed to do if he'd been an experienced developer with a track record. "If you're a guy with 20 years of experience, there's probably no principal guarantee," he said.

He also relied on his experience in real estate finance to help navigate the loan process and secure a lender. "I spoke the language of the lenders," he said.

In addition, during college at the University of Michigan, Anikstein also worked at his family's subcontracting company, Woodbury, N.Y.–based Cord Contracting, so he is comfortable with the ins and outs of construction.

His Williamsburg building — where studios start at $2,600 and three-bedrooms rent for $7,500 — is 95 percent leased after launching in July.

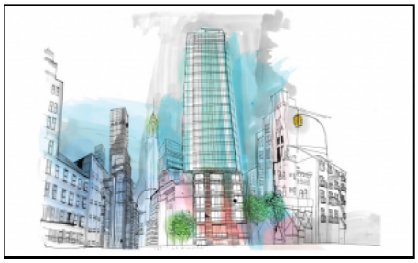
Meanwhile, Great Point, which is currently a one-man operation based out of an office at 570 Lexington Avenue, also owns a development site at 174 North 11th Street in Williamsburg. Anikstein bought that site in 2012 for $3.4 million, and is weighing two options: gut renovating the commercial space, or building a new 50-unit apartment building. Since November 2013, he's also picked up several more properties, including 194 North 9th Street and 92 Berry Street, both in Williamsburg, and three co-op units at 916 Union Street in Park Slope.

Carmel Partners

California investment firm Carmel Partners is hardly a stranger to real estate, currently managing $3.6 billion in real estate assets nationwide for 60 institutional investors.

But the firm, led by CEO Ron Zeff, is now developing its first condo building in New York City.

The 33-story tower, which is at 325 Lexington Avenue and launched last month, will include 123 studios to two-bedroom units. Carmel bought the site in January 2013 for an undisclosed amount from Time Square Construction and Development, which is now a partner on the project. (Time Square's development stalled there in 2008.)



Carmel Partners' 33-story tower at 325 Lexington Avenue launched last month.

In addition, the company is actively looking for additional development sites in Manhattan, Brooklyn and Queens, according to Lee Bloch, vice president of development.

"We just think the market fundamentals are very strong," Bloch said. "Demand definitely continues to outstrip supply."

Bloch said Carmel sees a shortage, in particular, of smaller condo units as other developers bring larger condos online. Carmel, which opened a one-man office in the city in 2010, now employs eight staffers in New York.

Although land prices in New York are higher than other parts of the country, Carmel has come into the market with considerable muscle. As of July, it raised $1.03 billion via its fifth investment fund. "We can move quickly because we have discretionary funds," said Bloch.

Besides ground-up development, Carmel also acquires, rehabs and manages real estate. In New York, it's taken on three projects since 2011: 15 Cliff, a 157-unit rental in the Financial District that it picked up for $95 million in January; the Electra, a 168-unit rental at 354 East 91st Street, which it also snagged for $95 million, and the Renoir House, a 151-unit rental at 225 East 63rd Street, where it bought the ground lease for $44.5 million.

Red Sky Capital

Cornell University graduates Benjamin Bernstein and Benjamin Stokes like to fly under the radar — but the duo has spent more than $120 million on development sites in prime Brooklyn neighborhoods since 2012.

Today their portfolio includes property near the Barclays Center and a parcel of buildings in the heart of Williamsburg.

Yet another Ben, Ben Tapper, a senior director at Eastern Consolidated, said the duo's instincts in prime Brooklyn has been spot on.

"I would use the word 'prescient,' " said Tapper, who represented Red Sky in its acquisition of 143-157 Roebling, which went into contract two years ago for $32.35 million. Following litigation over the property between the seller and another interested buyer, Red Sky closed this spring, paying half the price the property would fetch today, according to Tapper.

Bernstein — previously an analyst at investment management firm Pimco and venture capital firm Blue Martin Ventures — and Stokes, a former project manager at Warren Claytor Architects, made their first investment in 2007, picking up an apartment building at 759 Manhattan Avenue in Greenpoint for $3.9 million.

By 2012, the Wall Street Journal reported they'd amassed 170 Brooklyn apartments. Since then, Red Sky Capital has become a visible player in Williamsburg, where it began snapping up prime real estate following the 2008 bust.

In 2012, a joint venture between Red Sky and Waterbridge Capital, one of Red Sky's sources of financing, paid $66 million for a group of parcels along Bedford Avenue in Williamsburg, with plans to redevelop 50,000 square feet of retail and 39 rental units.

The firm, which did not return calls for comment, also owns three properties near the Barclays Center: 76 Saint Marks Avenue (which it bought in July 2013 for $15 million), 267 Flatbush Avenue (which it picked up in May 2013 for $6.2 million) and the Triangle Building at 182 Flatbush Avenue (which it bought in September 2012 for $4.1 million.) It's unclear what their plans are for those sites, but Tapper said Red Sky has been "aggressively" buying real estate, with no sign of slowing down. "They still are very active in their acquisitions," he said.

MC3

Jacob Toll, the son of real estate mogul Robert Toll, has planted his flag in Williamsburg, where he's developing an 83-unit building at 76 North 4th Street — just two blocks from Toll Brothers' Northside Piers project.

Leasing at Jacob Toll's Lewis Steel Building is set to launch early next year.

The younger Toll, in a partnership with property manager and developer Cayuga Capital Management, paid $17 million in 2010 for the former Lewis Steel Products factory, which he converted into a rental building, with leasing set to launch early next year.

MNS' Barrocas, whose firm is marketing the property, said Toll is a developer to watch.

"He comes from a family background of development, but this is his first project here in New York and it's been a great success," said Barrocas.

Toll said although he helped out in Toll Brothers' Williamsburg office for a time, he always wanted to strike out on his own. "Why work for a public company with a starting salary when you can work for yourself?" he quipped.

Toll connected with Cayuga at a fundraiser in 2009. As he got to know the firm's co-founders, Jacob Sacks and James Wiseman, they discovered that they were interested in pursuing similar projects, including adaptive reuse of historic buildings, he said.

"It's been a huge learning experience," said Toll, who added that the biggest lessons were related to working around the older building's existing condition.

Unlike other first-time developers, financing for Toll's project was less of a challenge. Toll and Cayuga acquired the site in an all-cash deal and obtained a construction loan. "Financing is not a factor for us," said Toll, who tapped his personal money to purchase the Lewis Steel building.

Having grown up in a real estate family (not only is his father the co-founder and chairman of Toll Brothers, his mother also developed custom homes in Philadelphia), Toll's first solo development was in Telluride, Colorado, where he rehabbed an old Victorian home and sold it for $5.7 million in 2007.

He moved to New York in 2006 to get a master's in social work at NYU, during which time he began shopping for development sites in Brooklyn.

Besides the Lewis Steel project, Toll redeveloped a 10,000-square-foot warehouse at 234 Starr Street in 2010 on the East Williamsburg-Bushwick border, turning it into a commercial space with four restaurants and three offices.

Last year, he bought six walk-ups in Bushwick for less than $6 million combined.

"I'm a long-term-play guy right now," he said. "I got a good price, and after I fix them up and justify some market rents, they'll start to be positive."

Adam America Real Estate Investment

One newcomer gained his experience far afield: Dvir Cohen Hoshen developed 1,700 residential units in Romania, shifting his focus to New York in 2011.

Since then, Adam America Real Estate Investment has put $130 million into 12 residential properties, according to the developer's website, which notes that the firm is backed by "an established network of high-net-worth international investors."

Sean Kelly, managing director specializing in development and conversion at CPEX Real Estate, said Adam America is a prolific Brooklyn developer and often teams up with Slate Property Group.

Prior to founding Adam America with Omri Sachs, Hoshen founded Adama Holding Public Ltd. Sachs was a senior manager at that company, which developed housing in Eastern Europe starting in 2004.

In all, Adam America's New York City portfolio includes 570 rental units and 115 condo units. The rentals include 53 Broadway and 247 North 7th in Williamsburg, 180 Franklin Avenue in Clinton Hill, 500 Sterling Place in Prospect Heights and 275 Fourth and 470 Fourth in Park Slope. The condos include 51 Jay Street and 201 Water Street in Dumbo, and 100 Norfolk Street in Lower Manhattan.

Maddd Equities

Developer Jorge Madruga got his start as a parking-lot owner and spent the better part of the last decade building affordable housing. But since the bust, Madruga's Maddd Equities has been on a development tear, with a spate of market-rate projects.

This year alone, Maddd Equities has nine projects under construction, including several on Manhattan's Far West Side, where it's developing a 155-room hotel at 444 Tenth Avenue and two sister buildings, 411-421 West 35 Street (187 luxury rentals) and 445-451 West 35 Street (125 luxury rentals). It's developing all three with Joy Construction, a firm it started working with on affordable housing more than a decade ago, said Eli Weiss, Joy's managing vice president.

"Some of the companies that did affordable housing didn't go through the severe downturn of 2008, 2009 and 2010, allowing them to continue to keep their platform as robust as it was prior to the recession," Weiss said.

Access to capital is now enabling such companies — including Maddd — to do market-rate deals.

Madruga, a native of Cuba who runs Maddd with his wife, Francesca, first waded into New York City real estate nearly a decade ago as a partner on a South Bronx condo project near Yankee Stadium. In 2009, he developed a 641-unit rental building at St. Ann's Terrace in the Bronx.

But Madruga, who did not return calls for comment, moved on to the Manhattan development scene after the bust. And in the last two years, the company has taken on deals in highly visible areas, including near Hudson Yards.

In 2012, Maddd developed a 98-unit rental building called the Mantena on West 37th Street.

This year, meanwhile, Maddd launched an 86-unit rental building at 74-84 Third Avenue in Manhattan and a hotel-rental at 127 West 23rd Street. It also has several other projects in the works in other parts of the city.

HAP Investment Developers is building this 98-unit rental building in Washington Heights.

HAP Investment Developers

HAP Investment Developers had already built more than 70 office and apartment buildings in Tel Aviv, Budapest and Kiev when, in 2010, co-founders Eran Polack, Amir Hasid and Nir Amsel set their sights on New York. They've been gobbling up real estate ever since.

Since 2011, HAP has acquired 12 development properties throughout Manhattan and in Jersey City. Projects range from the $4 million gut renovation of 419 East 117th Street, an eight-unit apartment building, to the $40 million 500 Summit Avenue in Jersey City, a 915,000-square-foot mixed-use project.

Polack said that in 2011 and 2012, there was little competition for development sites because the market was still recovering and banks weren't lending. "It was very easy to buy," he said. "In 2013, it started to be harder to buy. There was much more competition to buying land."

HAP has also had the benefit of longtime investors who have funded the firm's developments in New York.

"When we came here, the [investors] came with us," Polack said. "It's a long-term relationship with the investors," many of whom are from Israel and Europe. More recently, though, local investors have thrown their backing behind HAP, too.

Polack said HAP plans to double its portfolio in the next several years.

For the most part, HAP is investing Northern Manhattan neighborhoods like Washington Heights, Inwood and East Harlem. "We see a lot of potential over there," he said. "We think this is the land reserve of Manhattan."

Although the majority of HAP's projects are rental buildings, there are three condos, including 215-219 West 28th Street, which will have 130 condos.

Slate Property Group

Developers Martin Nussbaum and David Schwartz have had a busy year.

Slate Property Group, founded in 2013, has 15 ground-up projects under development, plus another five rehab projects, according to principal David Schwartz. All in, he said, Slate is developing some 1,500 units — mostly in Brooklyn.

CPEX's Kelly said Slate is one of Brooklyn's most prolific developers.

Nussbaum and Schwartz met more than 12 years ago when both were working for large developers. In 2009, Nussbaum co-founded Manhattan-based Silverstone Properties with Josh Zegen and Brian Shatz. Nussbaum left Silverstone in 2013 and formed Slate. Schwartz joined him in February.

The pair takes a pioneering approach to site selection. "We're willing to go into a market that may not look proven to people and take what some people would perceive as a risk," Schwartz said.

Having developed projects in prime Williamsburg and Dumbo, Schwartz said he and Nussbaum are currently bullish on the South Williamsburg-East Williamsburg-Bushwick border. In September, Slate partnered with Adam America and Israel-based Naveh to buy a development site at 120 Union Avenue in East Williamsburg, where the joint venture is planning a $65 million mixed-use property with 100 rental units. The purchase price was $15.5 million.

Slate also signed a contract to buy 100 Union, where it's planning 40 rental units, though the $6 million deal hasn't closed. "What we're doing there is we are going to be developing a handful of sites, all within a block of each other, creating a little neighborhood," Schwartz said.

Slate has financed acquisitions with equity – both its own, via successful investments, and from investors — and then sought construction loans. Although in general banks are less willing to lend, compared with the last upcycle, Slate has leveraged its track record and strong balance sheet to work with repeat lenders, Schwartz said.