

BISNOW

(ALMOST) NEVER BORING

July 25, 2018

Next Wave: The Developers And Investors Banking On The Bronx's Market-Rate Future

By Miriam Hall

Historically, the Bronx has been the affordable housing borough, with active developers targeting portfolios with stabilized units. But a market-rate future in the borough, many say, is now a matter of when, not if.



While Bronx investment sale dollar volume slipped more than 30% between the first halves of 2017 and 2018 to hit \$198M, price per SF actually increased, Cushman & Wakefield figures show. The average price per SF in the borough hit \$207 in the first half of the year, a 15% increase from 2017.

More major players are making a push into the area. The Lightstone Group this year spent \$50M on a 267-unit portfolio in Bronxdale. Brookfield's \$165M play in the borough — snapping up 1.3M SF across two separate development sites from Chetrit Group and Keith Rubenstein's Somerset Partners earlier this year — has been described as a game-changer. Plus, there has been more chatter recently around MLS team NYCFC's aims to build its much-anticipated soccer stadium in the South Bronx.

There are few market-rate rentals and condominiums on the market, sources told Bisnow, but that will soon change, though it may take some time. The outlook for the borough, and the opportunities for developers and investors will be discussed at Bisnow's Bronx State of the Market on Aug. 16.

"Bronx has a future with market rate, it's my belief, [and] I have seen the evolution of many areas," said Douglaston Development Chairman Jeff Levine, whose firm owns Crossroads Plaza, a 425-unit, mixed-income, mixed-use development in Mott Haven.

He said when Citigroup Tower was built in Long Island City, it was seen as the "harbinger of development" — but it was several decades before anything else was built in the area.



"It will happen," he said. "How soon is really a function of growth of New York City and the level of economic success over the years to come."

The economic realities of the borough point to a strong immediate future for market-rate housing. The Bronx is the only borough where rents match up to median income in the city, so people on middle incomes can live there without being rent-burdened, which means they are paying 30% or less of their income for housing.

A family of four on the median New York City salary of \$90K has around \$2,250 per month to spend on an apartment, according to analysis by Hodges Ward Elliott. Those basic fundamentals, as well as the cost of land in Bronx, means it now makes sense for developers to bank on market-rate opportunities.

"Manhattan land prices no longer make sense for rental development, so virtually all future rental development will be in the boroughs," HWE Managing Director Daniel Parker said. "Bronx market rents have started to reach a level where developers can make sense of new development. I see a bright future for market-rate housing in the Bronx."



Parker said that over the last two decades, the Bronx has added 14 residents for every new unit delivered, giving “tremendous pricing power” to owners.

“Brooklyn was about the arrival of \$4 coffee and gentrification,” he said. “The Bronx is more about affordability for median income New Yorkers with good-paying jobs.”

There is already the beginnings of a strong market-rate offering in the area. At Carnegie Management’s 25 Bruckner St., a new 130-unit rental building, a three-bedroom, two-bathroom unit is listed on StreetEasy for \$3,790 a month.

“The next wave is market-rate,” said Hornig Capital Partners Managing Partner Daren Hornig, who co-owns the Bruckner Building, an office property at 2417 Third Ave. in Mott Haven. “People are moving there, people want to stay there. ... Market-rate is a positive trend, if it’s integrated properly, and a lot of developers are very conscious of that these days.”

Hornig said his firm is looking at a number of potential investments in the area that would feature market-rate rentals or condos. He believes the land and the transportation access means the area has a lot of room to grow. He said it is not just new New Yorkers moving to the Bronx, but locals who want to live in market-rate housing that do not have that option with current rents in Manhattan, Brooklyn or Queens.



“Things like good transport, educational opportunities, a growing scene in terms of the arts [are the] markings of a neighborhood that is on the rise,” Taconic Investment Senior Vice President Daniel McInerney said. “Does that mean market-rate housing will work? I think it’s headed there.”

Taconic owns Eastchester Heights, a housing complex across five city blocks on Seymour Avenue. Taconic also bought in excess of 300 rent-stabilized units earlier this year from Related Cos., and McInerney said the company is expanding its holdings in Bronx.

“I think the stuff that is happening down on Mott Haven with Brookfield ... It’s got the critical mass [and] it could be the big push in that direction,” he said.

McInerney, Parker, Levine and Horning will all be speaking next month at Bisnow’s second Bronx State of the Market event at The Bruckner Building.