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Condos Coming to NYC's Long Island City After Rental Boom

By Oshrat Carmiel - Dec 22, 2014

After nine years of working on apartment developments in New York's red-hot [Brooklyn](#), Sam Charney has moved on to a new mission, in a different borough.

Charney, with partner Ascent Development, is building condominiums in the rental-saturated neighborhood of Long Island City in Queens, on a wager that the area is starved for for-sale housing. The team is completing a three-unit building on 47th Road and plans to build a 54-condo tower about three blocks away, encouraged by a growing pool of potential buyers.

“We witnessed this neighborhood go from a renter's neighborhood where people who couldn't afford to be in Manhattan moved here in their mid-20s,” Charney said. “Now they're in their mid-30s, having children, and they've saved up a little money.”

Condos are making a comeback in the area after an apartment boom that reshaped the neighborhood just across the East River from Manhattan. More than 6,100 rental units were added in the past eight years and almost 20,000 more are planned, according to data from the [Long Island City Partnership](#). The relatively cheap land deals that enticed developers to build apartments for lease are gone now, making it harder to profit from them, especially as [rents](#) begin to level off amid so much competition.

“In the last two years, nobody was really talking about doing condos,” said Eric Benaim, president and chief executive officer of brokerage [Modern Spaces](#), which markets new developments locally. “Now everybody's talking about doing condos. With land prices shooting up dramatically from where they were a couple of years ago, it doesn't really pencil out for a developer to do a rental.”

Land Prices

Purchases of residential-development sites in Long Island City and adjacent Astoria totaled \$418.9 million this year through September, more than triple the deal volume from the same period in 2013, data from Modern Spaces show. Buyers agreed to pay an average of \$176.41 per buildable square foot, a 27 percent jump. A Long Island City lot sale on Sept. 30 was the most expensive ever for the area, at \$293 a square foot, said Evan Daniel, who leads Modern Spaces' investment-sales division.

The record may be short-lived. A parcel at 22-12 Jackson Ave., across from the art-exhibition space MoMa PS1, was [listed](#) last month for \$315 a square foot, according to Ron Solarz, the Eastern Consolidated broker who is marketing it.

“Are condo guys looking at it? The answer is yes,” Solarz said.

About 518 condo units are being planned or under development in the neighborhood, more than three times the number built in the past two years, according to data compiled by the Long Island City Partnership. That compares with 19,700 rental apartments that are planned or under construction.

‘Financially Sound’

Developers make more per square foot on condos than on rentals, so escalating land prices will make building for buyers “the only financially sound move” for anyone entering the market now, according to Elizabeth Lusskin, president of the partnership.

“It’s going to take a while for the mix to flip, but I certainly think there will continue to be an upward trend in condo offerings,” Lusskin said.

Property Markets Group, co-developer of [Manhattan](#) luxury-condo projects including Walker Tower, is considering condos as part of its plan for Long Island City’s Clock Tower building, according to principal Kevin Maloney. His firm bought the property in November for \$30.9 million, more than twice what the previous owner paid six months earlier in a bankruptcy auction, he said.

“We looked at what the market is and we backed into the number,” said Maloney, who estimated the deal worked out to \$218 a square foot. “We said, ‘We can afford to pay that.’”

Backup Plan

It was the second Long Island City purchase for Property Markets Group. The first site, around the corner on 41st Avenue, is slated for 391 rental apartments. Property Markets Group also filed condominium plans for that building as a backup, “if the condo market somehow takes off,” Maloney said.

The volume of renters in Long Island City creates a built-in audience for the 88 condos [Slate Property Group](#) is developing in the neighborhood’s Court Square section, said David Schwartz, principal at Slate. The firm and partner [Carlyle Group \(CG\)](#) plan to start construction next year, focusing on “family-sized” homes, some with outdoor spaces and back yards, Schwartz said.

“When you’re building condos in a market where people don’t live, you have to convince people first to live there, and then, to buy in your building,” he said. “Here, they already live there. To convert those

people to condo owners is really not going to be the hardest job.”

Rising Prices

Residential developers started flocking to Long Island City after the 2001 [rezoning](#) of 37 blocks east of the waterfront abutting the Sunnyside Yard rail depot. The changes allowed higher-density towers within the manufacturing hubs of Queens Plaza and Court Square. New sidewalks, better lighting and a 1.5-acre (0.6-hectare) green space at the base of the bridge are among [upgrades](#) that have made the area more attractive, Lusskin said.

Rising home prices also may increase the appeal of building condos, even for developers who favor [rentals](#) as a way to benefit from an improving neighborhood, said Benaim of Modern Spaces. Long Island City homes sold for an average of \$1,020 a square foot in the third quarter, 21 percent more than a year earlier, according to [data](#) from the brokerage.

“It’s very tempting to do a condo when you can get that kind of a number,” said Justin Elghanayan, president of Rockrose Development Corp., which in August finished leasing its 709-unit [Linc LIC](#) tower in the Court Square section.

‘Unabashedly, Yes’

Rockrose, which has been buying land in Long Island City for more than two decades, is pouring the foundation for a 975-apartment tower on Hunter Street and partially demolishing a former Eagle Electric Manufacturing Co. building on Queens Street, where it will build 785 rentals.

The company also owns a 0.15-acre parcel on 43rd Avenue. When asked if Rockrose would consider condos on the site, Elghanayan said, “Totally, unabashedly, yes.”

The company’s last condo offering in Long Island City reached the market in September 2008 and took years to sell as buyer credit dried up and purchases stalled in the real estate slump. The last unit at the 184-unit project, the [View at EastCoast](#), finally sold earlier this year, according to Benaim of Modern Spaces.

Charney and Ascent acquired their sites last year, for as much as 30 percent less than the land would cost today, by their estimates. They faced a choice between building “a reasonable rental or a very-profitable condo,” and concluded that the area’s current renters would embrace the opportunity to buy, said Tien Vominh, a principal at Long Island City-based Ascent.

Not Enough

“The market is full of rental projects,” Vominh said. “In a neighborhood like this, looking at the

demographics, we felt there was just not enough supply” of for-sale properties.

At the partners' 54-unit project at 11-51 47th Ave., slated to break ground early next year, prices will be about \$1,100 a square foot for most condos and \$1,800 a square foot for the two penthouses, which will have unobstructed views of the Manhattan skyline, said Charney, who worked for Two Trees Management Co. in Brooklyn before starting his own firm last year.

While apartment rents in the area are still climbing, the thousands of new units flooding the market are keeping increases in check, said Jonathan Miller, president of appraiser Miller Samuel Inc. The median rent in Long Island City was \$3,000 last month, 2.2 percent more than in November 2012.

In the same two-year period, leasing costs per square foot jumped 24 percent, driven by demand for the smaller units that tenants in the neighborhood favor, according to Miller, a Bloomberg View contributor. That level of growth is appealing enough to keep developers building rentals for as long as they can, he said.

Tishman Speyer

“Rental development is lower-risk than luxury-condo development,” Miller said. “You can enjoy rising rents and you can convert” into condos later on.

Among upcoming rental projects is Tishman Speyer Properties' three-tower complex near the Queens Plaza subway stop, which will have as many as 1,800 luxury apartments. It's Tishman's first residential development in New York's outer boroughs, said a spokesman, [Bud Perrone](#). Construction on the first tower is slated to begin next year.

Builders buying land today in Long Island City are increasingly setting the groundwork for condos, inquiring how to make future projects compliant with Fannie Mae guidelines for mortgage lending, said Orest Tomaselli, CEO of National Condo Advisors, which consults with developers on such matters.

“We're seeing a lot of push in that area,” said Tomaselli, whose firm is based in White Plains, New York. “The calls I'm getting are those early in the process saying, ‘We just acquired this property, we're looking at the numbers and we're definitely going to do condos.’”

To contact the reporter on this story: Oshrat Carmiel in New York at ocarmiel1@bloomberg.net

To contact the editors responsible for this story: Kara Wetzel at kwetzel@bloomberg.net Christine Maurus