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OLD OFFICE BUILDINGS GET A NEW LEASE ON LIFE

Juliette Fairley. **Real Estate New York**. New York: Jul/Aug 2004.Vol. 23, Iss. 7; pg. 39, 4 pgs

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Developers are betting that converting second-tier office product into rentals and for-sale apartments will be profitable, especially as WTC redevelopment efforts pick up steam

CARIN ROBERTS LOVES THE LONG HALLWAYS IN HER LOFT-LIKE, three-bedroom apartment in Downtown Manhattan's Financial District. Not only is her $3,000 a month apartment within a renovated pre-war building but it's also in a former office building. Built in 1969, 90 Washington St. served as the Bank of New York headquarters until it was converted into 398 residential units by the Singer & Bassuk Organization, a mortgage brokerage and real estate advisory firm based in Manhattan. "The apartment gives the illusion of an open atmosphere because the hallways create a spacious feeling. The length is a nice dramatic way to lead people into your apartment and the lobby is impressive with its marble floors," says Roberts, 28, who added that the walls are sound and sturdy as well.

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Located four blocks from Ground Zero, the 375,000-sf property is one of 58 office buildings in Lower Manhattan that are being converted for residential use under the city's plan to revitalize the area, according to Carol Abrams, spokesperson for the New York City Department of Housing Preservation and Development. Prior to becoming a residential building, the former Bank of New York housed back-office services for 30 years. The Moinian Group, a Manhattanbased commercial and residential real estate developer, purchased the property in 2002, then began the transformation process immediately.

"We had some difficulties converting. It's never easy," says Joseph Moinian, president and CEO of the company. "You can open a wall to find pipes where you're planning to install someone's future living room. We then have to reroute the pipes and electrical outlets. That's why I prefer ground-up [construction] over conversions because there's always surprises when you're working with conversions." It took 12 months to convert 90 Washington, which began leasing to the public in 2003.

Kian Kashani, 24, loves the high ceilings of his 90 Washington apartment. "From the outside it looks like an office building but the inside is completely residential," divulges Kashani, who moved there in November 2003. "I don't feel like I'm living in a post office or anything."

In addition to 90 Washington, Moinian has converted more than 12 office buildings and is currently in the process of applying for $100 million in Liberty Bonds to convert the 36-story New York Athletic Club at 18 West St. into 288 residential apartments.

"I think this trend of converting office buildings will continue because some of these office buildings become obsolete, dated and are no longer useful," says Moinian. Owners are forced to use the building for something else other than office space. The trend is to use it as offices but later it could be hotel or time-share conversion. Other buildings Moinian has converted include 18 West St., 100 John St. and 1 West St.

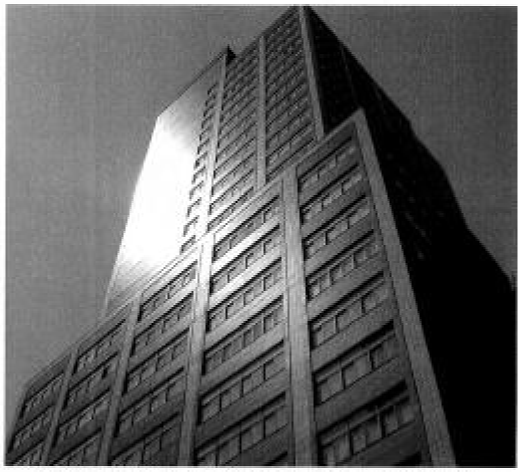
The office conversion trend has become popular as a result of the Lower Manhattan Revitalization Plan instituted by Mayor Rudolph Giuliani. The plan includes a tax break, which waives real estate taxes for 10 years for commercial property owners converting office buildings. One such incentive, the 421-G tax incentive program was extended once and will sunset on June 30, 2007, according to Abrams.

After the World Trade Center attack in September 2001, Liberty Bonds were offered to finance these projects in order to revitalize the Downtown area, which further fueled office conversions.

The first office conversion to be funded under the program was 90 Washington St., The funding was designed to finance the construction of standard market-rate units as well as luxury product. The project received $82 million in tax-exempt, low-floater bonds provided by the city, which funnels the interest from the bonds directly to private investors, says Richard Bassuk, president of the Singer-Bassuk Organization, a real estate investment banking firm. The firm is also involved in facilitating financing for the 37-story office tower at 63 Wall St., a $145 million conversion of the former HQ of Brown Brothers Harriman, an investment banking firm.

Under the Liberty Bond program, the city received $800 million and the state received $800 million to disburse to multifamily rentals-not co-op or condo projects.

The program expires at the end of 2004. "To date, we've issued $478.6 million out of $800 million and we have $321.4 million left to distribute by December 2004," says Tracy Paurowski, a spokesperson for the Housing Development Corp.



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The four buildings that have received financing thus far are 90 Washington St., 90 West St., 63 Wall St. and 2 Gold St.

"Once they were converted, converted office buildings became very popular. Apartments are 20% to 30% cheaper in the Financial District than in Midtown or the Upper East Side because the value of the land is less Downtown. Also, young professionals working on Wall Street like walking to work," says Brad Gerla, a senior vice president with CB Richard Ellis.

Under Liberty Bond guidelines, developers pay a 3% fee of the total project to the city, which goes toward affordable housing. The 3% has brought in $15,3 million so far. In the case of 90 Washington, $2.4 million of the $82 million went to the New York City HDC, which then disbursed the funds towards affordable housing, says Paurowski. "We charge them a 3% origination for the use of the bonds. We then use the money as a subsidy through 1% second-mortgage loans to developers that are building, renovating and acquiring affordable housing in Queens, the Bronx and Manhattan," she continues.

To date, about 394 affordable housing units have been created while 1,934 units have been converted downtown. In turn, $4.3 million came out of the $145-million, 63 Wall St. project to pay the 3% city fee. The 410,000-sf asset is being converted to 476 residential rentals.

Although Manhattan's office vacancy rate is 12%, 90 Washington is 100% occupied, indicating a housing demand that supports office conversions.

"We have a tremendous amount of office space in Manhattan. In fact, we have a surplus of office space and a shortage of residential housing," says Ralph Trionfo, president of Upside Ventures, a commercial brokerage firm. Even without Liberty Bonds, office conversions offer developers a high return on their investment, especially if the converted apartments are condos.

"Monthly rent on a 200-sf apartment could be about $4,000 but if you sell that same space, you can get at least $1.2 million dollars for it. So, the profit margin is higher with homeownership than rentals," says Kenneth Horn, president of Alchemy Properties, a real estate development firm that has a number of multifamily projects throughout the city and is currently converting two office buildings into condominium buildings.

One of his properties-West 19th St.-had to be altered to comply with zoning laws. It had been an office building for 60 years until Horn bought it for $25 million with private bank loans and equity.

"We saw it as a residential opportunity but we had to shave off five feet from the back of the 12-story building to adhere to zoning rules that require there be a certain amount of space between one building and another," says Horn.

Upon completion, there will be 67 lofts measuring 750-sf for sale. A studio will sell for a minimum of $500,000.

Horn's second property wasn't as easily converted. At 120 E. 29 St., his team had to remove the staircases from five separate brownstones that were built in 1880 in order to create viable entrances, exits and hallways.

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"We shelled out the office building and added two and a half stories to the building, creating 25 condo apartments. So far, 16 have sold," says Horn. The project is expected to completed by the end of the year.

As long as there is a housing shortage there will be a strong housing market, according to Horn. But satisfying incipient demand is only half the battle; finding available space is the other half.

"The challenge is finding a vacant office building or finding something that's 80% vacant. We've bought out office tenants or completed the entire conversion and then waited for office tenants to vacate," Horn says.

There isn't an immediate end in sight to this gold rush, according to Ralph Trionfo. "Only a terror attack or over saturation could slow down the market, " he quips.

But the lack of available community services in many neighborhoods of Lower Manhattan may deter other developers from pioneering their way south. For instance, located off of Rector Street and the West Side Highway, there's a 24-hour deli around the corner from some of the converted buildings, such as 90 Washington, as well as a pizzeria, but no major supermarket.

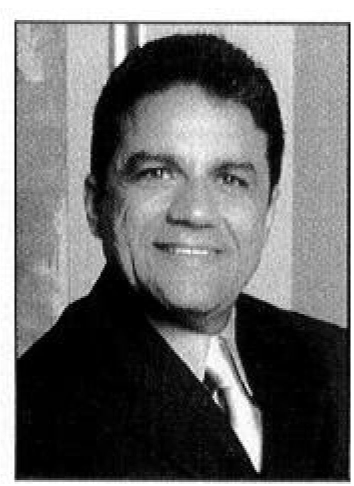
Kashani uses FreshDirect.com to deliver his groceries because the online service is cheaper and the nearest grocery store is a 10-minute walk across the West Side Highway to Battery Park City. "There's no affordable supermarket around here. The delis sell items, like toilet paper and milk, but for a lot more money," says Kashani. Despite the lack of community services, about 30,000 people live below Canal Street, according to the 2000 US Census Bureau report. This enviable number can be attributed to the fact that older buildings offer perks that modern buildings cannot, in Richard Bassuk's opinion.

"Old office buildings have amenities you'd never see in a modern residential building because no one can afford to include marble floors, high ceilings and chandeliers," reports Bassuk. On the other hand, the quality of the structure itself may be outdated, second or third-tier product. "The shell is old. So, for example, you won't see glass windows from floor to ceiling in a renovated office building because the shell is pre-existing and floor to ceiling glass is a recent phenomenon," Bassuk said.

Residing in an old building is a small price to pay in return for the peace and quiet nights in the Financial District after everyone has left the office, says Roberts. "You don't have the noise you get on the Upper East Side with bars on every corner," Roberts says. That may soon change as the Financial District continues to convert the remaining 90 million sf of office space to residential apartments, according to Brad Gerla. "It's becoming a 24-hour community with restaurants and stores to compete with Midtown," he adds. "These office conversions are creating a seven-day-a-week lifestyle, which gives us a more vibrant city. Only 10 million sf has been converted to residential. There's plenty of space left."

Meanwhile, Kashani and Roberts hope that vacant commercial space in the lobby of the building will be converted into a supermarket.

Nonetheless, it may be awhile before a full-fledged supermarket moves to the neighborhood because the lobby vacancy is small, just 1,000 sf, not big enough for a supermarket. Instead, we're considering a light food café overlooking the plaza, a gourmet deli or restaurant as tenants for the space," says Moinian.



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The Numbers Don't Lie
According to New York City's Department of Housing Preservation and Development, 58 office buildings in Lower Manhattan are slated for conversion into residential use under the city's plan to revitalize the area.

Some properties that will be transformed-or have already been redeveloped-into rental apartments include: 80 South St., 90 West St., 18 West St., 100 John St., 1 West St., 40 Broad St. and 63 Wall St.

At press time, Cushman & Wakefield announced its second-quarter statistics for the Manhattan commercial real estate market. According to New York area leader Kenneth Krasnow, some 5,500 units of residential housing are planned for Lower Manhattan, noting that many of the old second and third-tier office buildings are located on the south side of Wall Street.