

Catching Up

The borough has been slower to develop than others, but the new Yankee Stadium isn't the only Bronx tale these days

By Joseph Dobrian
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Perhaps even more than Staten Island, the Bronx has been New York City's red-headed stepchild for several generations. It's always been a working-class bedroom borough, but in the last half of the 20th century it gained a reputation—not entirely unfairly—as a lawless urban jungle of vice and violence. Although it was relatively slow to share in the recovery of the 1980s and 1990s, the city's only mainland borough is now undergoing a surprising amount of development in all product categories—especially class A office and large-scale retail.

The highest-profile development is the new Yankee Stadium, scheduled for completion next year, bringing with it a new Metro-

North station and an improved retail scene in what was until recently one of the city's most troubled neighborhoods. But that's far from the only story out of the Bronx these days.

Another headliner is the Hutchinson Metro Center, a multi-phased, fully amenitized class A office complex set on a 42-acre landscaped suburban campus. Located off the Hutchinson River Parkway in Pelham Bay, the development is accessible via public transit (linked via complimentary shuttle bus) as well as major highways. It's less than a mile from Albert Einstein College of Medicine, Montefiore Medical Center, Jacobi Medical Center and Calvary Hospital, making it likely to attract medical users. The first phase,

Large-scale retail projects are helping drive the redevelopment of the Bronx. Related Cos. is turning the Bronx Terminal Market into a new retail center, park and esplanade on 17 acres along the Harlem River.

460,000 sf, was fully leased within two years of the start of construction. Phase two, the Towers at Hutchinson Metro Center, consists of two 10-story towers offering a total of 520,000 sf of space. The first tower is now beginning to lease, says John Peters, senior director of Cushman & Wakefield.

"One floor is fully leased and several tenants are negotiating for space," he says. "Phase One houses various city government offices, the IRS, Montefiore Hospital, Mercy College and about 100,000 sf of individual medical practice. Three more buildings might be upcoming for a total of 1.2 million sf. They'll be completed when Simone Development, the developer of the project, finds enough tenants."

Any class A development in the outer boroughs will be difficult to tenant simply because it's not Midtown Manhattan, Peters concedes, but Hutchinson Metro is seeing strong demand from tenants currently in Yonkers and other parts of Westchester County, as well as from local users.

"It looks like a corporate park in Westchester," Peters says, "but closer to Manhattan, with various incentives from the City of New York. Several banks want to have branches in this development, and we'll have retail amenities such as a gym, cafeteria, dry cleaning, sundry shops and childcare. The office deals we're doing now are in the low \$30s. You don't see rents above \$40 per sf in the Bronx."

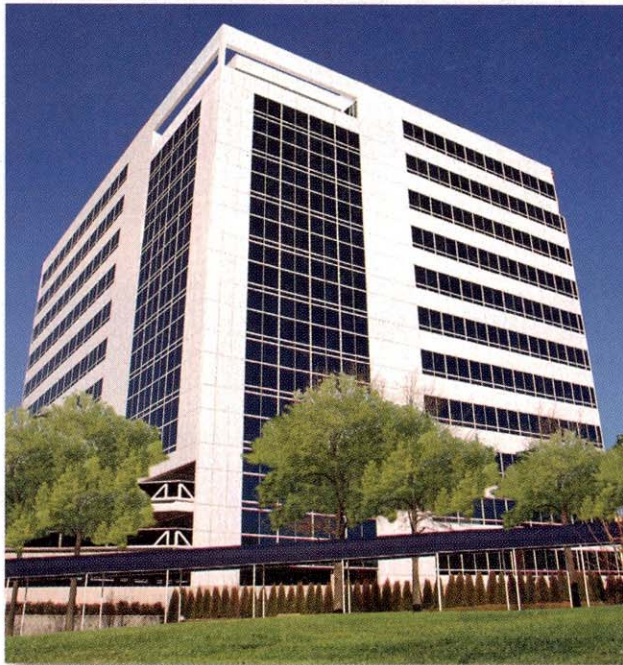
Businesses relocating to Hutchinson Metro may qualify for incentives such as the Relocation and Employment Assistance Program and the Energy Cost Savings Program. Joseph Simone, president of Simone Development, says response to Hutchinson has been "phenomenal," and that a total of two million sf might be completed there before the whole project is played out.

"Our latest building is already 25% leased," he confirms. "We'll continue to build, and I'm not worried about a softening of demand. If Manhattan gets a little soft in office, it's only a benefit to us, because we offer the same quality of space as class A in Manhattan, for a lot less, so as companies look to save money and realize that they

don't need a certain address, they'll find that we're a great alternative."

He adds, "When the market is red hot in the city, everyone wants to be there. When the economy softens everyone becomes cost-conscious. We're achieving \$32 rents, but with incentive programs you can get your rental outlay down to half that."

The Bronx on the whole has never been hotter than it is now, Simone asserts. "We have an awful lot of industrial space, in Hunts Point as well as Port Morris, and because of zoning changes in Long Island City and Williamsburg, industrial space in the city has diminished," he points out. "Therefore



Not known as a hub of office space, the Bronx is making strides in this sector. Simone Development's Hutchinson Metro Center project at 1200 Waters Pl. could eventually reach 1.2 million sf, and is seeing strong demand from tenants in Westchester County as well as local users.

the Bronx is flourishing, and people realize the advantage of a Bronx location when it comes to distribution to the other boroughs and the suburbs."

Ari Shalam, director of acquisitions for Taconic Investment Partners, also gives high marks to the Hutchinson Metro Center. In the southwest Bronx, at 890 Garrison Ave. in Hunts Point, he's targeting similar or slightly lower rents for the redeveloped BankNote, formerly a printing facility for the American Bank Note Co.

"The 'before' and 'after' there might be compared to Chelsea Market in Manhat-

tan," Shalam says. "It's a 400,000-sf facility built in 1910, which we're repositioning as office property for creative users. We just took it through a landmarks process, and now we're renovating it."

Shalam says he's also bullish on residential rental property in the Bronx, which he says should flourish due to the depression of the for-sale market. In March, Taconic acquired Eastchester Heights, a five-block complex that comprises 114 buildings containing 1,416 units of rent-stabilized apartments.

"Eastchester Heights is in effect a neighborhood of its own," he explains. "We're going to add the right amenities, plus safety and service, and turn it around."

In Shalam's view, "The Bronx is misperceived, and doesn't get the credit it's due. There's great residential stock there to be acquired; it's less picked-over than Manhattan; it's very well served by transportation."

Shalam agrees with Simone that many office users getting priced out of Manhattan will consider the Bronx over the next four years, as quality space is developed.

Meanwhile, the long-blighted Bronx Terminal Market is being redeveloped into a new retail center, park and esplanade along the Harlem River, re-cast as the Gateway Center at Bronx Terminal Market. Glenn Goldstein, president of Related Retail, says the 17-acre market near the Major Deegan Expressway will contain one million sf of retail and might open as early as the summer of 2009, a few months ahead of schedule.

"We're already 80% pre-leased: Target; Home Depot; Marshalls; Best Buy; Toys 'R' Us; Bed, Bath & Beyond; and others," he says. "The total cost of the development is \$500 million. Along with the new Yankee Stadium and the Metro-North station, it will have a tremendous impact on the revitalization of the South Bronx."

The borough, Goldstein says, "has been stigmatized for a long time with the 'Bronx is Burning' stereotype of the 1970s. The success we had in our leasing effort proves the perception has changed. We're working with local community groups to ensure that the jobs this development creates will be available

to locals. We've also recently completed a new retail project at 156th Street and Third Avenue, in the Hub, and we're looking for other opportunities. The Bronx is significantly under-retailed. The entire borough was slow to share in the economic uplift we've seen in the other boroughs over the past generation."

Related Cos. was assigned in April by the New York City Economic Development Corp. to redevelop the 575,000-sf Kingsbridge Armory in the Kingsbridge Heights section of the Bronx. Related's proposal for the structure, the Shops at the Armory, calls for destination anchor retail development, coupled with specialty and local retail, restaurants, cinema and community space. Other proposed features include a recreational facility, catering and banquet space, outdoor open space with a seasonal farmers' market and café and parking for 400 cars. The \$310-million project will generate about 1,800 construction jobs and 2,000 permanent jobs.

Peter Fine, managing principal of Atlantic Development Group, is somewhat more cautious about the overall retailing situation in the Bronx, although he agrees that long-term, retail development should flourish there.

"Related is having success with Gateway because it's on a highway and it's largely food-oriented," he argues. "You'll see more shopping centers, but many of the national retailers are not quite ready to go into the Bronx. You'll know the Bronx has arrived when you see 100,000- to 200,000-sf blocks of retail in the middle of the borough."

Meanwhile, Fine is about to kick off a middle-income residential project in the Highbridge section, northwest of Yankee Stadium, where he's already built five affordable housing projects.

"Middle-income housing in that neighborhood wasn't conceivable five years ago," he asserts. "I would not have had confidence that there would be enough \$60,000- to \$70,000-a-year families who would stay in the South Bronx once they reached that level. It's still the Bronx: Once a certain economic level is achieved, people will move. But what's different now is that the solid middle-income family will stay longer because they feel safer. Drugs and crime reached a zenith in the early '90s and have steadily declined since then. The borough has more jobs, mainly in the \$40,000 to \$50,000 range,

and the borough started buying and rebuilding vacant properties. We're nearing the final frontier now, in terms of the South Bronx becoming a viable, livable place. When the restaurants, movie theatres and other types of retail come in, the South Bronx will have arrived."

Fine envisions the Bronx as a sort of second Brooklyn, in the long view. It's dissimilar to Queens, which is zoned for more one- and two-family homes, but the Bronx could achieve a more Brooklyn-esque character, with single-family ownership opportunities in the outlying neighborhoods.

Paul Travis, president of Washington Square Partners, goes Fine one better. According to him, people aren't just staying in the Bronx; they're immigrating there from Manhattan and Westchester. His organization recently built a 235,000-sf mixed-use retail/office center on Broadway and West 225th Street, and is working on another project on Fordham Road that it hopes will serve as the borough's northern retail anchor, a counterpart to the southern anchor at Yankee Stadium.

"There's also increased demand for class A office in the Bronx, and that demand is mostly internally generated, by local accountants, lawyers and other professional services," he says. "Companies there want to grow, but they have no space to grow into. Pedro Alvarez Associates, an accounting firm, recently grew from three to 25 employees in the Kingsbridge area, because we had the space for them to move into. That firm had been operating in a converted apartment building; we gave them a real office. They would not have been able to expand a few years ago, because that space didn't exist."

The investment sales market in the Bronx is also heating up a little, according to Matthew Sparks, managing partner of GFI Realty Services' commercial sales division. He says the typical investor in the Bronx is the experienced local player, the one who has been through the most recent couple of cycles and will be there for the next one.

"These are the guys who were on the sidelines in 2006 and 2007, but who have made it their business to own property in the Bronx," he says. "Now it's the novices who are on the sidelines because they can't get the leverage and don't have the experience in this market. The professional with the

good reputation is out there buying deals, and isn't having trouble getting financing."

Sale prices are eroding all over the Bronx, Sparks notes, but class A prices are holding up better. Prime multifamily property is still most attractive to investors, he says, since the best commercial space is mostly still in development. But, he adds, the owners of such buildings aren't necessarily eager to sell.

Marco Lala, managing partner of Massey Knakal Realty Services, which specializes in representing sellers, is currently offering several multifamily portfolios in the Bronx, as well as a small development site in Pelham Bay. He notes that the bid-ask gap is still pretty wide in the Bronx, but predicts that it will narrow, although probably not by much. He adds that among Bronx bidders, liquidity is pretty high.

"Some investors can write a check for the full purchase price," he says. "And in any case, lenders want to see you put more equity into a deal these days—maybe 25% to 35%. That works out to everyone's benefit, especially in tertiary neighborhoods and in rent-stabilized situations where expenses might rise faster than rents."

Lala concludes, "Today, the Bronx provides tremendous opportunity. It has strong pockets like Riverdale, Pelham Parkway, Mosholu Parkway and around Fordham University, and there's strong retail in the Hub. Also, we have one of the best transportation matrices imaginable." —RENY