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Building Boom on Roosevelt Island

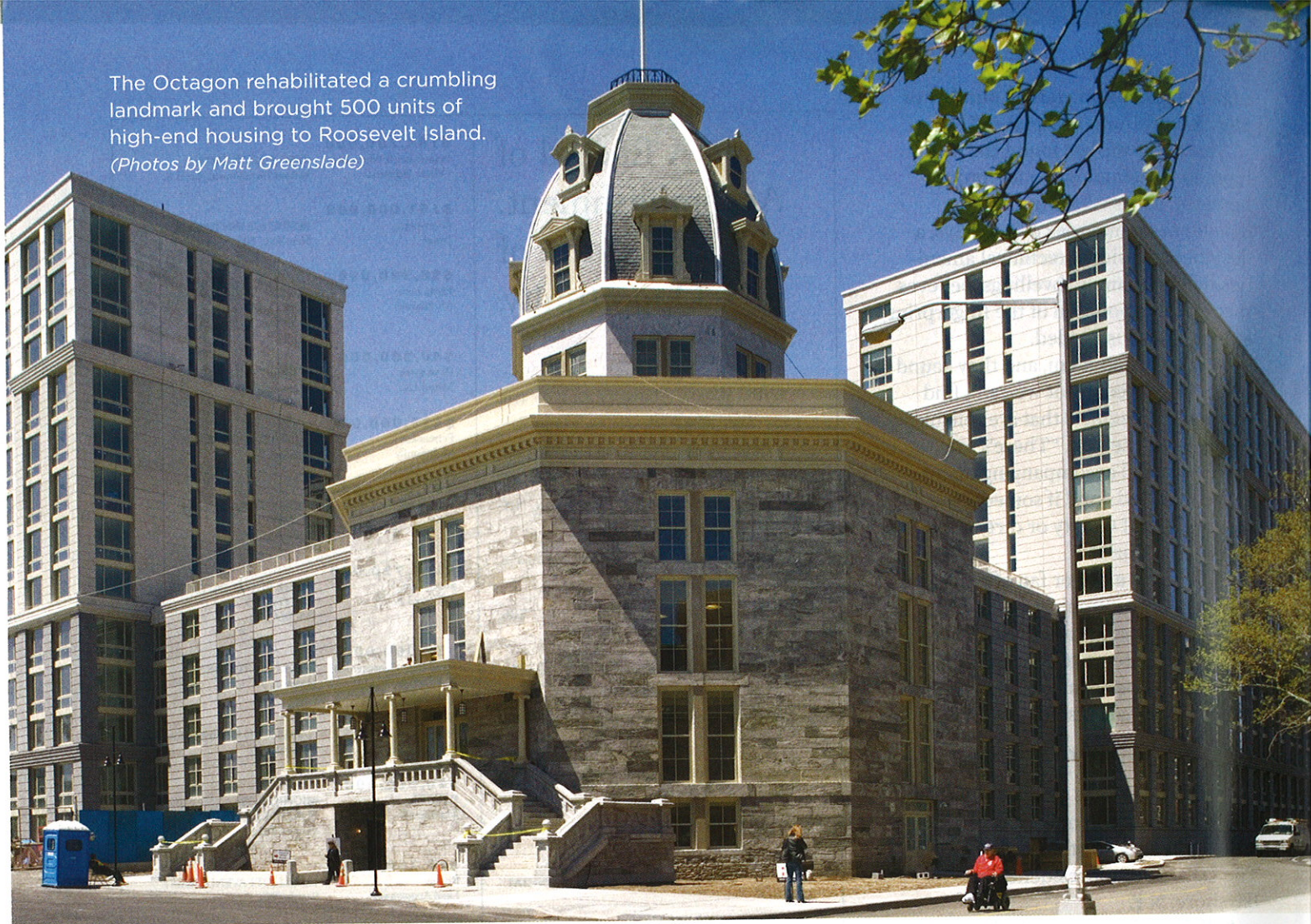
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The Octagon rehabilitated a crumbling landmark and brought 500 units of high-end housing to Roosevelt Island. (Photos by Matt Greenslade)



Roosevelt Island Goes Upscale

New York City's biggest and oldest planned mixed-income community goes luxury, and the owners of thousands of low-income apartments consider raising their rents. By Bendix Anderson

New York City—Tall new buildings of glass and stone, filled with thousands of new luxury apartments and condominiums, and mixed with a sprinkling of housing

affordable to moderate-income tenants, are now rising in the empty lots of Roosevelt Island.

Workers are just finishing 500 rental apartments at the Octagon, a new com-

munity built around a stately marble and limestone tower, the carefully restored last remnant of the old New York Lunatic Asylum. On the other side of the island, 2,000 new units of housing are opening in phases at Riverwalk.

A narrow, two-mile spit of land set in the East River between the boroughs of

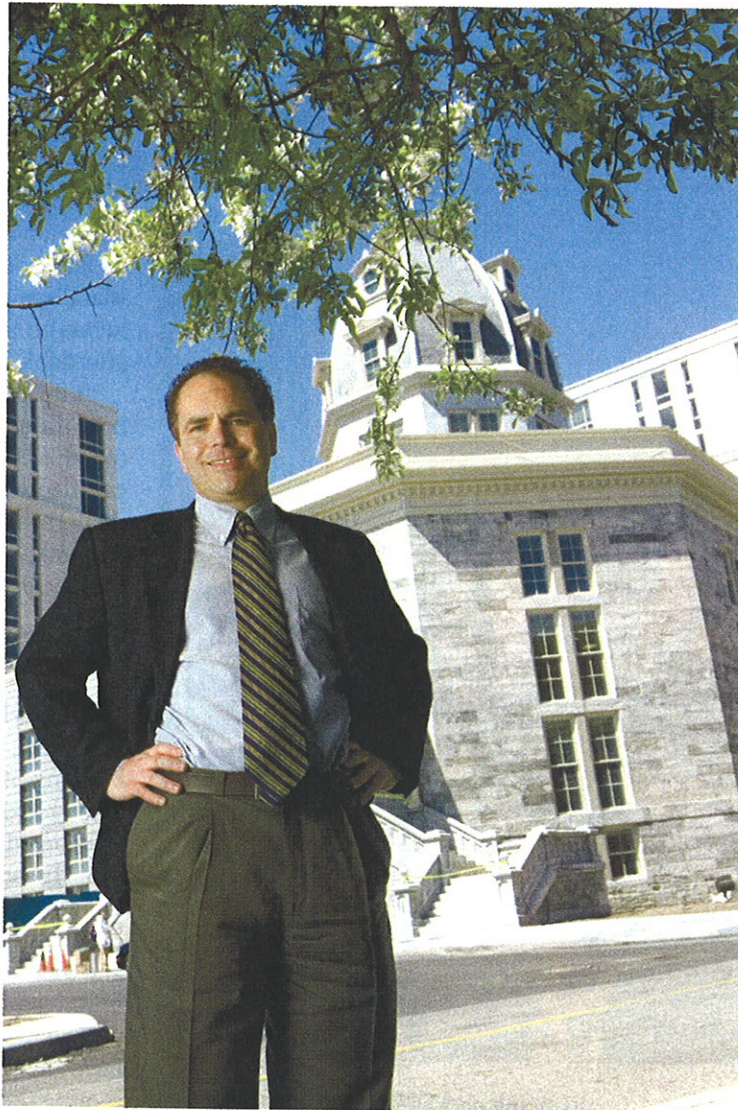
Manhattan and Queens, Roosevelt Island for the last two centuries has been famous for its prisons, hospitals, and madhouses.

But in the 1970s, while the rest of the city was wracked by fires and crime, city and state officials created a vision for Roosevelt Island as an oasis where families earning a mix of incomes would live together and share modern civic infrastructure including a tram like a giant ski-lift that traveled between the island and Manhattan. The plan was put into action with the construction of more than 3,000 apartments, many of which carried steep income restrictions.

But large stretches of the island remained empty except for grand and crumbling ruins. By the late 1980s and 1990s, private developers seemed to have lost interest in building here.

Now a revived rental market in the boroughs of New York City and looser affordable housing requirements on the island have lured a new group of private developers, and their work so far has been very well-received.

Since the leasing office at the Octagon opened in January, eager ten-



The Octagon earned a Leadership in Energy and Environmental Design silver certification from the U.S. Green Building Council, according to Bruce Becker, president of Becker + Becker, the developer and architect of the building.

ants have rented an average of 60 units a month, paying upwards of \$2,800 a month for two-bedroom apartments. Rents average \$40.65 per square foot, after figuring a concession of one

month's free rent. That's significantly less than the rents in Manhattan, just a few thousand yards away, but still \$2.50 above the property's pro forma estimates.

"The stars have aligned for us here," said Bruce Becker, president of Becker + Becker, based in Fairfield, Conn., the developer and architect of the building. In particular, the Octagon has opened practically without competition from other new rental housing, thanks to the recent boom in condominium construction. "They've stopped building rental housing in this city," Becker said.

Winning the right to build on Roosevelt Island wasn't easy. The land under all the buildings on the island is still owned by New York City, which has leased it until 2068 to the public entity that manages Roosevelt Island. In exchange, the Roosevelt Island Operating Corp. (RIOC) makes sure that developers building on this leased land follow the island's general development plan.

Also, the people that live on the island take a lively interest in its future. Many of them wanted the land under the Octagon to remain a park, even if that meant that the historic ruin of the old asylum continued its slow collapse.

"I've been working on this project for nine years," Becker said. "I was selected to be the developer of the site three different times through an RFP [request for proposals] process."

Worse, the asylum ruins had been damaged in no less than three fires. Rebuilding the eight-sided tower cost about \$400 per square foot, twice the hard cost of constructing the rest of the project, and Becker had to fight to win federal historic rehabilitation tax credits to help pay for the work.

Sources of Funding for the Octagon

\$150 million: Equity financing provided by the Multi-Employer Property Trust (MEPT), a pension fund. MEPT will receive an 8 percent yield, plus participation in the Octagon's profits

\$15 million: Equity from the sale of historic rehabilitation tax credits to Bank of America

\$10 million: Grants provided by the New York State Energy Research and Development Authority, developer equity, and other sources

\$175 million: Total development cost

Roosevelt Island

David Kramer, a principal with The Hudson Cos., Inc., is helping develop 2,000 mixed-income units with the Related Cos.



“We were on the national historic register, but there was some question as to whether the building existed or not,” he remembered. “It was basically rubble surrounded by eight walls.”

Becker had originally planned to finance the \$175 million project with a tax-exempt mortgage insured by the Department of Housing and Urban Development, plus the equity provided from the sale of low-income housing tax credits. That financing mix would have placed income restrictions on 20 percent of the apartments, reserving them for low-income tenants. Unfortunately, that financing strategy was fraught with delays, as government agencies struggled to underwrite the deal.

“We waited for two years,” Becker said. Finally, he lost his patience and contacted Multi-Employer Property Trust, a pension fund that was interested in investing equity in the project. The Octagon’s mostly conventional

financing package closed just three months later (see sidebar on page 45).

Becker estimates that another year of delay might have added \$20 million in increased construction costs, making the project impossible to complete.

However, Becker has a personal commitment to creating affordable housing. He is one of the original founders of Common Ground Communities, Inc., the nonprofit development company that helped pioneer a type of housing for the homeless called supportive housing. So he found a way to include at least some affordability restrictions on the apartments: 100 units at the Octagon are reserved for tenants earning up to 150 percent of area median income (AMI). The other 400 units will rent at market prices.

These income targets aren’t very deep, but they are also completely voluntary, and the building has received no government subsidy. The level of

affordability was acceptable to the project’s equity investors.

Becker hopes that his luxury apartment project will help fulfill the original vision of Roosevelt Island, by adding a decidedly Class A piece to the island’s mix of aging Class B apartments and government-subsidized affordable housing.

“Life is more interesting when you have different groups of people living together,” Becker said. Luxury projects can also afford to pay more money in their ground lease agreements to the cash-strapped RIOCO, a public entity that receives no money from the state.

2,000 more condos and apartments to come

Meanwhile, on the southern end of the island, the third of nine planned buildings at Riverwalk opened with 230 mostly luxury condominiums. Developed by the Related Cos., L.P., and The Hudson Cos., Inc., the new \$65 million building rapidly sold out at prices as high as \$450,000 for a studio and \$1.2 million for a three-bedroom unit.

The first two buildings at Riverwalk have already been finished and are now renting their hundreds of apartments to employees of the Memorial Sloan-Kettering Cancer Center and the New York-Presbyterian Hospital/Weill Cornell Medical Center through a special agreement that “minimized our risk for the first buildings,” said David Kramer, a principal with The Hudson Cos.

RIOCO’s plan for this part of the island requires two out of every five units built here to be reserved for tenants earning either a maximum of 80 percent or 148 percent of AMI.

Some residents worry that the island is gentrifying. At the same time, the part of Roosevelt Island that was originally meant to house low-income New Yorkers may also be headed upscale. Three of the oldest and most affordable housing developments on the island are now eligible to drop their affordable housing restrictions. A fourth project has already opted out. ■