

The Lower East Side goes upscale: Q&A, part II

L+M's Isaac Henderson and Goldman Sachs' Margaret Anadu explain why the LES is "an excellent value"

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By Adam Warner



From left: Isaac Henderson, Margaret Anadu and a rendering of Essex Crossing at on the Lower East Side

From the February issue: The Lower East Side is a long-gritty neighborhood that's undergoing a dramatic makeover. Driving the transformation is the \$1.1 billion Essex Crossing mega project, which is set to deliver 1,000 units of housing along with retail, office, and community/cultural uses.

In the second web installment, The Real Deal asked Isaac Henderson, director at L+M Development Partners, one of the developers on the project, and Margaret Anadu, managing director of Goldman Sachs Urban Investment Group, one of the investors, to weigh in on the LES market and why the neighborhood is being billed as the most "affordable cool" option in the city.

Isaac Henderson

L+M Development Partners

Your Essex Crossing project, which consists of nine sites and three phases, is the biggest and most talked about redevelopment in the LES. How much investment is actually pouring into the area right now and how does that activity compare to three-to-five years ago?

The amount of new development in the Lower East Side is very exciting and we are glad to be a part of it. Our particular corner of the neighborhood has so much potential for new renters and homeowners. There's really a high demand for new housing stock, both affordable and market-rate.

The new development pipeline in the LES is pushing residential condo prices there past the \$2,000-a-square-foot marker. How much are condo prices up by in the last few years and how does that compare to other neighborhoods? Also, do you think there's room for more growth?

Condo prices are up significantly throughout all neighborhoods in New York City. Because there was little to no new development in this corner of the LES prior to the new development coming on line, the new projects are higher priced than the few projects completed at the end of the last boom. The LES, however, is still priced significantly lower than nearby downtown neighborhoods like the East Village, Tribeca and the West Village. And given the neighborhood's continued improvement and competitive pricing, there is still room for more growth.

How much are prices up or down by on the rental side? And what are we seeing in terms of rental development in the neighborhood?

Essex Crossing will include almost 900 new rental units [and 100 condo units] so we are adding quite a bit of new rental housing stock. Additionally, the rental stock is increasing through the renovation of older buildings. However, land prices have significantly increased in recent years, so besides our development, the amount of new rental stock will be limited as long as the condo market stays strong.

What's going on with retail rents on the LES? How much are they up or down by in the last year or two?

Similar to the rest of Manhattan, retail rents in the LES are strong and continue to grow. The extreme escalation of rents in neighborhoods like West Chelsea and the Financial District have priced out many users, and that demand is now shifting to neighborhoods like the LES. A great example of this is the burgeoning art gallery scene on the LES as those users move out of West Chelsea. In that sense, the LES is an excellent value.

Aside from Essex Crossing and Extell's tower, what projects do you consider game-changers in the neighborhood? And what new benchmarks are they setting for the LES market?

Certainly those two projects are significantly larger than any other new developments so I tend to watch many of the smaller LES condos coming on line that will bring additional residents and amenities to the neighborhood. Examples include 50 Clinton, 100 Norfolk and the Ludlow developments.

What do you think about Extell's decision to market exclusively to Asian buyers? Do you expect other condo developers to follow that strategy?

Each development is different and the strategy depends on market conditions, locations and type of building. We are not planning to market exclusively to any group as we think there are a lot of buyers from all over.

**What do you see as the biggest challenges to development and investment on the Lower East Side?
Do you think the market is too saturated with product right now?**

The LES is a tremendous neighborhood that so many people want to live and work in, and visit. There is, however, little to no new land so purchasing new projects is competitive, and land prices are at an all-time high. The streets are also narrow so construction can often be a challenge. Prior to our development there was little to no new construction in the LES, so demand is very strong and we believe it will continue to be well into 2016 and beyond. We don't feel there is an oversupply.

Margaret Anadu

Goldman Sachs Urban Investment Group

Goldman Sachs has committed \$200 million to Essex Crossing, which is set to deliver what's seen as much-needed retail to the LES. Is there room for more retail on the LES?

Essex Crossing's inclusion of significant retail and commercial space was an important part of our attraction to the project. The project plan was developed in coordination with the local community and will provide critical entertainment and cultural components. The Lower East Side is a dense and vibrant neighborhood with strong pedestrian traffic and access to public transportation that to date has had a dearth of high-quality commercial space. We believe that opportunities exist for thoughtful commercial development that contributes to the neighborhood's character and charm while also providing important services to the community and drawing new shoppers to the neighborhood.

How do you see the demographic changing over the next 10 years?

The diversity of residents living on the Lower East Side is one of its greatest assets and has been for generations. Our Essex Crossing project seeks to preserve this unique mix of communities, and the key way we're doing this is by building affordable housing. Essex Crossing will contain more than 1,000 residential units, half of which will be affordable for low-, moderate- and middle-income families and seniors. This development, coupled with the significant housing stock that is already owner-occupied (including new condo development as well as co-op buildings), will ensure that the Lower East Side neighborhood continues to be composed of a diverse mix of communities.

What kind of development or investment opportunities are you looking for in the LES?

The types of investments that we are looking for in the Lower East Side are not different from our investments elsewhere. We are looking to make transformative investments that cater first and foremost to the needs of the community — be it safe, affordable housing, resilient infrastructure, access to retail, healthcare or education.