

THE REAL DEAL

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NYC developers crossing the river to Newark

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Despite Newark's reputation, formed mainly in the wake of the 1967 riots, as a blighted inner city that investors wouldn't touch, a wave of Manhattan-based developers is now crossing the Hudson River and doing deals.

Since the beginning of 2008, several New York-based investors including Apollo Real Estate Advisors and TreeTop Development have acquired major residential properties in New Jersey's biggest city. The firms plan to erect new apartment and office towers and convert old buildings into luxury rentals.

Apollo, a real estate investment fund manager headquartered at the Time Warner Center, teamed up with Radiant Property Management in January to buy a 724-unit block of rental properties in the city's South Ward for \$43 million. The firm is spending \$7 million to renovate the nine-building complex.

Apollo partner James Simmons said the company has been eyeing various residential, commercial and retail properties near downtown Newark for the past two years.

"We as a firm always thought Newark had some strategic advantages that were just being overlooked by the market," Simmons said. But, he said, before Cory Booker took over as mayor, "investing in Newark was something that was difficult for us to get our arms around."

Meanwhile, TreeTop, which has new projects in Williamsburg and Greenpoint, is also aggressively buying residential property in Newark.

In January, the firm spent \$22 million to buy the 293-unit Parkwood Place apartment complex in the Forest Hill section of Newark. The company is also buying 255 units in the North Ward and a property in the city's Central Ward.

"People sometimes think of Newark as this lower-class neighborhood where people will live in whatever it may be," said TreeTop principal Adam Mermelstein. "I think five years down the road, it's going to be a different place."

Manhattan-based Cogswell Realty Group, which two years ago converted a building on Raymond Boulevard into the first luxury rental in Newark in 40 years, is betting on that too. It's moving forward with a long-discussed plan to redevelop the former Hahne's department store and Griffith Piano building into condo loft apartments.

Industry observers say developers are increasingly looking to inner cities like Newark, where land is cheaper and the payoff can be greater if the neighborhood becomes more desirable.

"There's 40 years of perception problems you're fighting against," said Arthur Stern, a principal at Cogswell Realty. "It's not just from renters and buyers; it's from lenders and the government itself."

One issue that developers may have to face is a backlash from tenants over rising rents and potential

displacement. A coalition of tenants' groups voted Mermelstein as the worst landlord in New York City, in part due to alleged harassment of tenants in his Williamsburg apartment building. Mermelstein said that thus far, there has been no resistance from tenants at Parkwood Place.

Newark Deputy Mayor Stefan Pryor, who previously led the Lower Manhattan Development Corporation, boasted that the Prudential Center, the sports arena that opened downtown in October, and the New Jersey Performing Arts Center are finally putting Newark on the map for positive reasons.

"There is a changing perception justified by the facts of Newark," Pryor said. "We're biased, but we think that Mayor Booker has set a tone that is very receptive to development."

Certainly, Newark is seeing change. While the execution of three college students made national news last year, the city saw a double-digit drop in violent crime in 2007. Until February 2008, Newark went 43 days without a murder, one of its longest stretches without a homicide in decades.

Still, those who have followed Newark through the years note that it will not fully turn the corner until development spreads from stronger neighborhoods to weaker ones.

"Part of what Newark needs to be cognizant of is [that] revitalization doesn't just mean lots of high-wealth people moving into the city and corporations moving into the city," said Peter Kasabach, executive director of New Jersey Future, a Trenton-based public policy group.

The Booker administration is using tax abatements and other incentives to spur development. It has created the Brick City Development Corp., a nonprofit led by chief executive Joe Ritchie and Pryor, who serves as chairman, to help encourage new investment. The group replaces the old Newark Economic Development Corp., which critics charge was a featherbed for politically linked developers under the previous administration.

It seems that some of the renewal efforts are beginning to pay off: In January, the performing arts center brokered an agreement with Philadelphia-based Dranoff Properties to develop a 250-unit luxury tower, called Two Center Street, which will include 30,000 square feet of street-level retail and 750 parking spaces.

About 20 percent of the units will be set aside for the arts community.

Also, according to Pryor, the Manhattan-based Lam Group and Edison Properties have reached an agreement to develop a business-class hotel downtown, the first major new hotel project in the city in more than 30 years.

The new deals come on the heels of a \$150 million agreement announced in December between the Related Companies and Tiki Barber, the retired New York Giants running back, to renovate affordable housing in Newark and elsewhere. Later that month, the Booker administration reached an agreement with former New Jersey Nets player Tate George to redevelop 102 vacant and abandoned properties in the city's West Ward.

While Newark does not have the convenience of coffee shops, banks and pharmacies on every corner, it is a bargain compared to New York.

The city had 6.4 million square feet of Class A office space at the end of 2007. Asking rents were \$31.80 per square foot, and there was a 6.4 percent vacancy rate, according to data from Cushman & Wakefield. Last month, in a significant move, American Express Bank Ltd. announced plans to relocate its operations from Lower Manhattan to 50,000 square feet at Two Gateway Center in Newark. The banking division was recently sold off by the credit card giant.

Tim Greiner, executive managing director at Newmark Knight Frank, said his firm is in talks with

several law and engineering firms about leasing space at One Riverfront Center, a Class A office building across the street from Newark Penn Station.

Government officials have been trying to use the train station to attract new business. Earlier this year, New Jersey Governor Jon Corzine signed the Urban Transit Hub Tax Credit Act to provide 10 years of tax credits on office rent to companies located within a mile of a major transit center.

Meanwhile, by the fall of 2009, Rutgers Business School is scheduled to relocate to One Washington Place, a newly renovated building near the Broad Street train station. Chicago-based shopping center firm Tucker Development, which signed a lease to open its first New Jersey office at 50 Park Place, also made an agreement with the Berger Organization to redevelop a 3-acre site located across the street from the station. The site will be developed into a mixed-use project, while the old Westinghouse plant located next to Broad Street station is being demolished to make way for a new development.

The city has put out a request for proposals for about 40 acres of publicly and privately owned land surrounding the Broad Street station and has put out a request for developers to submit proposals for that property.

"Newark has finally come into its own and begun to see the interest it deserves both on the commercial and residential front," said Miles Berger, chairman of the Berger Organization.

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