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Despite soft sales in Manhattan, investors cherish West Chelsea development sites - by Andre Sigourney and David Baruch

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Manhattan investment property sales have been tepid this year, echoing 2016's trend, with volume metrics declining broadly in the aftermath of years of vigorous growth. Activity, however, has started to pick up in recent months, particularly in hotspots for development, such as West Chelsea, where air rights have become a hot commodity.

From January through August, Manhattan saw 335 investment sales transactions consisting of 389 properties, totaling approximately $10.55 billion in gross consideration, according to Ariel Property Advisors research. Compared with the same period in 2016, dollar volume and transaction volume declined 49% and 17% respectively, while property volume fell 18%.

In the first eight months of the year, Manhattan development site dollar volume decreased 63% to $1.24 billion and transaction volume dropped 45% to 48 versus January-August in 2016. However, the average price per buildable square foot for development sites was $638, virtually unchanged versus 2016, and markedly higher than 2015 when it averaged $610.

The decline in volume can partly be attributed to revisions to rent regulation and a more restrictive lending environment. Indeed, the market has seen a sharp pullback in financing for construction projects by banks over concerns about being overleveraged and government regulation, a noticeable turnaround from previous years when banks were bullish on construction loans.

Weak demand for condominiums has also suppressed activity, with the market widely-perceived to be overbuilt and demand for high-end, luxury properties is much lower than in the past.

The outlook for the New York City development market is encouraging due to the passage of the Affordable New York tax abatement legislation, formerly known as 421-a, in April. While Affordable New York is undoubtedly positive, it should have a muted impact on Manhattan as pricing and a heavy composition of condos either disqualify or discourage developer participation.

West Chelsea Air Rights on the Radar

Once a dormant and neglected industrial area, Manhattan’s west side has blossomed into one of the most vibrant regions of the city. Hudson Yards – the largest development project in the country and the future headquarters of some of the world’s biggest companies – has made a notable impact on neighborhoods in its proximity, such as West Chelsea. As Hudson Yards increasingly becomes a major business district, West Chelsea is poised to see an exponential increase in demand for housing.

For West Chelsea, the impact of rezoning cannot be overstated. In 2005, the city downzoned the West Chelsea Special District, narrowing the allowable floor-to-area ratio (FAR), or the ratio of usable floor area to lot size. The intended goal of the rezoning was to preserve the density in the neighborhood, while maintaining the views and open space around the High Line.

The rezoning allowed property owners along the High Line Transfer Corridor – a 100-ft. wide stretch of protected area that runs along the High Line between West 19th St. and West 30th St. – to sell their air rights to developers who could then increase their FAR back to what it was before the rezoning was instated. At the time of the rezoning, the city stipulated that once 90% of air rights were sold or otherwise used in the district, developers could possibly raise the allowed floor area in exchange for donations to a future affordable housing fund.

Now, with the area approaching the 90% threshold, talk of establishing the fund has become a hot topic, particularly how much a property owner would need to pay per-square-foot to obtain more air rights. The hope is that this initiative will see the same level of success, albeit on a physically smaller scale, that has been experienced directly north in Hudson Yards. By contributing to a District Improvement fund, large-scale rezoning in that area allowed developers to increase their FAR to some of the highest in the city.

West Chelsea has become one of the most desirable neighborhoods in Manhattan and a limited supply of air rights has made properties extremely valuable. In fact, Chelsea registers some of the highest price per buildable square foot sales in the borough. In the January-August period, the average buildable square foot was $673, nearly in line with 2016’s average of $685.

A notable transaction includes the $53 million purchase of 531-539 Avenue of the Americas by international buyer Gemini Investments from Colin Development, the largest Chelsea development sale of the year so far. The sale equated to an impressive $875 per buildable s/f. Another standout sale was 459 West 19th St., which sold for $20 million, or a striking $877 per buildable s/f.

Looking ahead, a pickup in recent bidding activity on active listings and contract signings suggest things appear to be turning around in Manhattan’s investment sales market, with development sites a bright spot in areas like West Chelsea. As the broader economy continues to strengthen and more projects near completion, West Chelsea should continue to lure residents and businesses to the neighborhood, indicating a strong commercial real estate market for years to come.

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