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For New York City real estate developers: West Chelsea air rights are all the rage - by Andre Sigourney and Amit Israni

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Sales of Manhattan development sites have begun to perk up as buyers and sellers come closer to alignment. Developers are particularly fond of sites situated in the trendy, tech-heavy neighborhood of Chelsea, with the recently-approved pricing of air rights on its west side bound to bolster their demand even further.

The investment sales market in Manhattan struggled in 2017, echoing a trend seen throughout New York City. Below 96th St., the borough's development sites saw dollar volume fall 21% to $2.77 billion and transaction volume slip 26% to 71 sales, according to Ariel Property Advisors' "Manhattan 2017 Year-End Sales Report."

To view, click on: http://arielpa.com/report/report-APA-Manhattan-2017-Sales-Report

Chelsea, however, bucked the trend. In fact, despite the overall downturn, development assets in the neighborhood fared extremely well last year, posting the highest transaction and property volume in Manhattan. The 12 recorded transactions in the sub-market was double that of other popular destinations for builders, such as the Upper East Side and Hell's Kitchen.

Meanwhile, Chelsea's development site dollar volume of $460.7 million in 2017 ranked second out of 16 Manhattan neighborhoods. Midtown's $523.6 million was the highest in the borough, but the 18 development properties that traded was 17% below the 21 sold in Chelsea.

West Chelsea, once a sleepy and ignored industrial area, has become one of the most exciting regions in the city. Its close proximity to Hudson Yards – the largest development project in the country and future headquarters of a slew of the world's biggest companies – has made a palpable impact on property values in the neighborhood.

Whether it be Hudson Yards or the panoramic city views offered by the High Line – the 1.45-mile-long elevated linear park that has quickly become a top New York City destination – one thing can be agreed upon: Development sites in West Chelsea are a hot commodity.

Cheery About West Chelsea

To understand the state of West Chelsea's development market, it is best to take a look back. In 2005, the city downzoned most of the area by reducing the permitted floor-to-area ratio (FAR), or the ratio of usable floor area to lot size. The rezoning's purpose was to preserve the neighborhood's density, while upholding the scenery and open space around the High Line.

The FAR in most of the district was limited to five at this time. However, 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. – were given the opportunity to sell their air rights to developers within the district, enabling them to increase their FAR. In recent years, as the supply of these air rights along the High Line became increasingly limited, pricing surged, making it more challenging for developers to assemble sites in the district.

Interestingly, at the time of the rezoning, the city also stipulated that once 90% of the District's High Line air rights were sold, developers could increase their FAR by contributing to a future affordable housing fund. That came to fruition last September when City Planning announced the 90% threshold was reached, setting in motion the establishment of the "West Chelsea Affordable Housing Fund."

This February, developers received positive news. City Planning approved the price per air right contribution to the fund at $625 per square foot, substantially below the $800 per square foot High Line air rights fetched a mere six months prior. Investors have taken heed and they are now actively looking to buy air rights in one of the most coveted corridors in Manhattan.

Indeed, condos in the neighborhood sell for well over $2,000 per s/f. A big driver of the sky-high condo prices is the spillover effect from Hudson Yards, where an ever-growing list of large, big-name companies have planted their flag. Blackrock, Wells Fargo, Coach, Neiman Marcus, and Time Warner are on the verge of calling the sprawling site their home. With thousands of employees inhabiting its office space, condo prices should continue to appreciate, making development a lucrative endeavor.

Meanwhile, at the southern portion of the neighborhood, tech-giant Google has overtaken a large swath of Chelsea, essentially creating an east coast campus in the neighborhood. They recently purchased the Chelsea Market building at 75 Ninth Ave. for $2.4 billion – the second-largest single asset transaction in the City's history – and they already own the entire city block at 111 8th Ave. That, along with renting a large amount of space in Vornado's building between 10th and 11th Ave., as well as RXR and Youngwoo's Pier 57, has made West Chelsea even more appealing.

Looking ahead, while Manhattan's development market may not bounce back from the peak levels seen a few years ago, West Chelsea will likely continue to outperform other neighborhoods. The fact that developers can now blend down their basis for air rights with the new affordable fund will stimulate activity. With West Chelsea positioned alongside the High Line and wedged between

Hudson Yards and Google's expanding east coast stronghold, the neighborhood will undoubtedly be New York City's premier location in the years ahead.

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