



## **Todays market is an exciting place for developers of housing units in New York City**

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The residential market in New York City is facing extremely limited inventory with a citywide shortage that now exceeds 550,000 housing units. Despite the strong interest from buyers and renters, and interest rates that are at all-time lows, investors and builders in NYC simply cannot keep up with demand.

For us at East River Partners LLC, (ERP) this is an exciting time to be a real estate developer. Founded by Jody Kriss and myself, ERP develops and acquires residential properties in desirable neighborhoods primarily in Manhattan and Brooklyn. ERP is currently underway with six condo and rental projects in NYC.

To capitalize ERP's next round of projects, we raised a fully discretionary fund - ERP Fund I. The first round of the fund closed in November of 2012, providing enough dry power to invest \$75 million in new deals. The fund allows us to be nimble and aggressive in acquiring new properties, and we look forward to a busy 2013 deploying this capital.

The target for the fund is mid-sized residential projects mostly in Manhattan and Brooklyn. Projects can potentially include condo conversions, value-add rental deals, converting commercial buildings to residential, new ground-up construction, and recapitalization of incomplete projects.

We are particularly bullish on condo development. The rental housing shortage is well known, but the dearth of for-sale supply is even more dramatic. While construction financing for new projects was extraordinarily scarce between 2008 and 2011, it particularly precluded for-sale projects. Since larger condo projects take at least three years to complete, even projects financed in 2011 won't be ready until at least 2014. The reduced condo supply is occurring at a time when interest rates are at all-time lows, making home-ownership affordable and attractive relative to soaring rents.

In particular, there appears to be a lack of larger, family-size units. In Manhattan, for example, only 5% of available rental units have three or more bedrooms. And yet buyer and renter demand for larger apartments is booming; since 2000, the number of children living in Manhattan under the age of five has increased by more than 30%. We at ERP look at floorplans with inch-by-inch level of attention to detail to craft apartments that are geared toward this emerging demographic.

We also believe there is a terrific opportunity to buy existing rental buildings, mainly in secondary markets in Brooklyn that are becoming primary markets. As residents are priced out of downtown Manhattan or the gentrified neighborhoods of Brooklyn, we have witnessed a virtuous circle in certain neighborhoods-new residents have spurred improved shops, schools, grocery stores, restaurants, and services-attracting still more residents and improved services. This self-propelling momentum leads to rising property values. We're expanding ERP's footprint further east and south in Brooklyn where it is feasible.

A competitive advantage that ERP Fund I offers to investors is that it combines the traditionally

bifurcated roles of passive real estate investment funds and active real estate operators into one vehicle. As a real estate developer, ERP is more intimately involved and knowledgeable about the operations of its properties than fund managers investing passively through operators. Also, the fund's fee structure eliminates the "double dilution" charged to investors by fund managers who pay developers a share of the profits and then take a share of the profits for themselves.

We look forward to hearing from you about deals and investment opportunities.

Joseph Cohen is a co-founder of East River Properties LLC, New York, N.Y.

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