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We are so back, somewhat: New York developers have new playbook

State tax abatement revives affordable housing, at least a little bit, industry says

270 Park Avenue and the River Ring buildingby Two Trees with Clipper Equity's David Bistricer, Domain Companies' Matt Schwartz and NY State Governor Kathy Hochul (Photo-illustration by Priya Modi; Wikipedia/Crossing Lights, James Corner Field Operations and BIG, Domain Companies, Clipper Equity, Getty Images)

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After the state's affordable housing policy lapsed last summer, developers went nearly a year without a functioning market for multifamily construction. It wasn't the only headwind.

Still, New York City's 20 most active developers were building more than 27 million new square feet of real estate, according to *The Real Deal*'s ranking of active new building filings — a substantial uptick from years past, due partly to approaching deadlines for the lucrative 421a tax abatement.

Meanwhile, the office market is still finding its bottom, and elevated interest rates have undone even the most diligent multifamily developers. Industrial developers that brought on-line ordering to the city face the prospect of new limitations, and owner-operators have emerged in retail, which can signal a low point in the market. From some corners, there seemed nowhere to go but up.

So in April, when the state set new, costlier rules for creating the affordable housing that is required of developers on rezoned land, a collective sigh was released.

For some, it was a sigh of relief.

"It's a lot of fun to be back in the game in New York," said Matt Schwartz, CEO of Domain Companies, which is building 1.2 million square feet of multifamily in the rezoned neighborhoods of Long Island City, Queens, and Gowanus, Brooklyn, where three projects will have 1,100 new units.

Domain's history of developing mainly in rezoned brownfield areas proved successful under the ancien régime of 421a, which critics blasted as a giveaway to developers.

In April, however, a novel, less lucrative 485x tax abatement has created wage minimums for workers on new projects in areas where real estate can fetch top dollar.

Across the board, projects eligible only for 485x (any that missed the footings deadline in June 2022) must create a majority of affordable apartments for households earning at or below the median income, rather than for those earning above it, a central point of criticism against 421a.

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Meanwhile, the completion deadline for projects that are eligible for 421a was extended by five years, reviving a unique submarket for multifamily projects. Sites that met the 2022 deadline for footings to be in the ground are now considered vested in the program, and can abide by the new 2031 completion deadline. Such sites may prove hot commodities.

“We’re looking to build the pipeline again,” said Schwartz, “whereas before we were more or less on pause in New York.” During the pause, developers sought other lines of business. Domain expanded its business into co-working and commercial leasing, according to Schwartz. Naftali Group, ranked twelfth, debuted a lending arm, Naftali Credit Partners.

Other developers let out a different sigh about residential development in the city.

There are several projects that will qualify for 421a through the extension, according to David Bistricer, whose Clipper Equity is building 1.6 million square feet of new multifamily under the program, mainly at a defunct Sears campus in Flatbush and also in Greenpoint, Brooklyn.

“But in the overall scheme of things, [485x] is not going to get the overall market going,” he said. Some projects that threw in the towel early facing the prior completion deadline of 2026 are now “back to square one,” according to Bistricer.

“You’ve got to dust off the plans,” he said. “It’s a lift.”

Less is more

Despite many office valuations spelunking for bottom, it was JP Morgan Chase’s new headquarters in Midtown that put Tishman Speyer at the top of this year’s ranking.

The 2.5 million-square-foot supertall at 270 Park Avenue turns heads in Midtown thanks to a muscular design by Foster + Partners. Tishman is a development partner on the project, which is owned by JPMorgan. Disney similarly tapped Silverstein Properties as development partner at its new offices in Hudson Square.

The two projects catapulted the developers high into the ranking, accounting for nearly 15 percent of the square footage being built by the city’s 20 most active firms.

Still, it was multifamily developers that sustained the list. On that front, Tishman is developing 250 apartments at 5119 Beach Channel Drive in Far Rockaway, and Silverstein is building 350 multifamily units at 44-01 Northern Boulevard in Astoria, Queens.

Outrun the bear

While the financial incentives that private developers used to build affordable housing units were missing in action for almost a year, a slew of construction had already qualified for the 421a tax abatement.

Among developers, Two Trees proved the busiest thanks to its 2 million square feet of residential development planned along the Williamsburg waterfront. However, the developer recently said that the new 485x rules could threaten the completion of its crown jewel, the River Ring site, where more than 1,000 housing units were planned.

While 421a encouraged developers to build big, and thereby create the largest number of affordable housing units possible, 485x swings the other way, incentivizing outer-borough development with residential buildings of 99 units or fewer.

The new policy may be good for politicians avoiding community battles over large new housing developments, but the larger the project, the more affordable housing comes with it.
Two Trees also recently completed converting the Domino Sugar Refinery into 400,000 square feet of office space along the Brooklyn waterfront.

Flying private

For all the mind-bending regulation that incentivizes the private market to build affordable housing, some developers chose to forgo the whole process and build condos, a move that doesn't require affordable housing.

Gary Barnett's Extell Development, ranked third this year, is looking for a $176 million sellout of its condo offering at 50 West 66th Street, with 127 apartments across 40 floors. The company's other active projects include a 30-story medical office building at 1522 First Avenue on Manhattan's Upper East Side and a 400,000-square-foot residential project (planned as an office before the pandemic) at 180 East 125th Street.

Another condo developer to make the list was Witkoff, which took over the 900,000-square-foot One High Line from collapsed developer HFZ. Witkoff is also working on a 51-story residential tower in Downtown Brooklyn that is likely to qualify for 421a.

Last mile

Andrew Chung's Innovo Property Group was the only industrial developer to make the ranking. The company is building a 1.5-million-square-foot facility in Long Island City near Newton Creek, which runs between Queens and Brooklyn.

Chung's company bet earlier than most on the turn toward online shopping and the need for urban warehouses. While several large last-mile facilities remain in the pipeline, the City Council recently announced it plans to require a special permit for the construction of new last-mile delivery facilities.

Even after a year of bad public policy freezing much of the multifamily development market, and while private developers may build smaller projects in less-desirable areas going forward, the housing shortage has kept vacancy rates very low, a boon to developers.

"It's not always rocket science," said Bistricer. "If you build the right project, people will come."

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