EASTERN CONSOLIDATED
Real estate investment services

The MetroGrid Report

Focus on NYC Submarkets

Featured District: Harlem

An Ever-Evolving Transformation

The Harlem neo-renaissance story has been frequently aired in the media over the last few years and with good reason: the development and investor interest in this area has been stunning. A number of investors bought land and other properties in the early 2000s believing that this neighborhood had everything that some of the burgeoning Brooklyn neighborhoods had yet with a richer historic and cultural heritage, not to mention better transportation access. Moreover, a number of rezoning plans that were passed over the last 10 years encouraged significant re-development especially along the 125th Street corridor, in East Harlem and surrounding Columbia's expansion plans in the West 130s.

With each new development that was proposed, investor interest grew. As the numbers below show, investment sales volume soared in 2005 through 2007 but then stalled in 2008 and 2009. Interest then picked up in 2010 and even more so in 2011 as transaction volume has nearly eclipsed that of 2010, although it has not returned to levels seen in 2007. What is more impressive about Harlem is what is to come: Columbia is expanding its campus by 17 acres and a number of developers have revived their development plans, particularly along 125th Street. [See Harlem's Future 125th Street and Beyond].

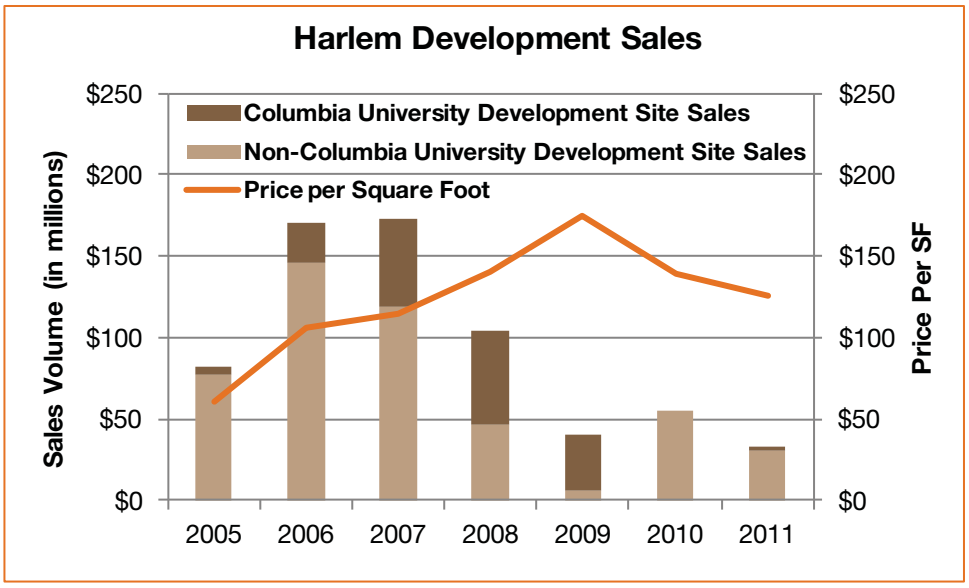
According to Peter Hauspurg, Chairman and CEO, "Harlem continues to amaze me in how much has changed. The development will continue in this next decade not only with Columbia transforming the West 130s, but in East Harlem as well. Our investors are always eager to learn more about our listings in Harlem."

The current issue of the MetroGrid covers the investment sales market of Harlem stretching from West 110th Street through West 155th Street west of Fifth Avenue and East 100th Street to East 155th Street east of Fifth Avenue. This area includes parts of Morningside Heights, Sugar Hill and Hamilton Heights.

Development Site Sales

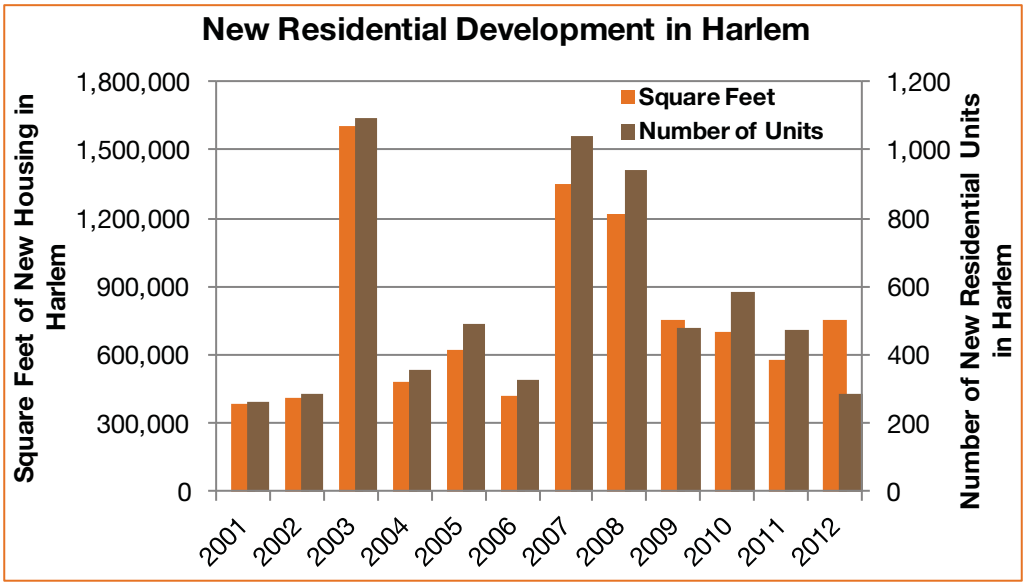
As shown below, interest in development site sales soared in 2006 and 2007, just as they had across the city. Not surprisingly, Columbia University[1] played a major role in this growth. Moreover, when the market declined in 2008 and 2009, Columbia was one of the sole participants in the development site market. Interestingly, the average price paid increased in 2009 to $175 per buildable square foot from less than $150 the year before. In 2009, Columbia bought at least five sites for more than $34 million but has not been as active since.

[1]Following years of planning and court hearings, Columbia's plan to acquire properties and build a 17-acre site north of its Morningside Heights campus was sealed in June 2010 when New York's highest court ruled that the state could seize private property via Eminent Domain for the project. The new site consists primarily of the four large blocks from 129th to 133rd Streets between Broadway and Twelfth Avenue.



Source: Eastern Consolidated, CoStar, Property Shark and NYC Department of Finance

As shown below, much of the development sites sold over the last decade has yielded tremendous new housing. In fact, the new multifamily properties built from 2001 through 2012 total 108 with more than 9.5 million square feet and 6,650 new housing units.

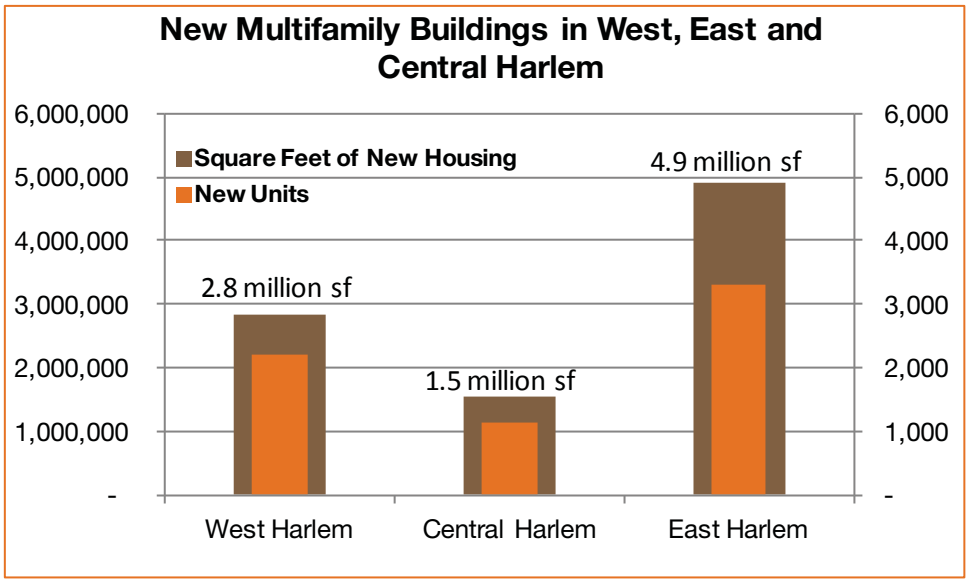


Source: Eastern Consolidated, CoStar and Property Shark

Moreover, these new buildings do not include renovated properties. A separate search found that as many as 118 multifamily buildings with more than 5.5 million square feet were renovated from 1998 through 2011.

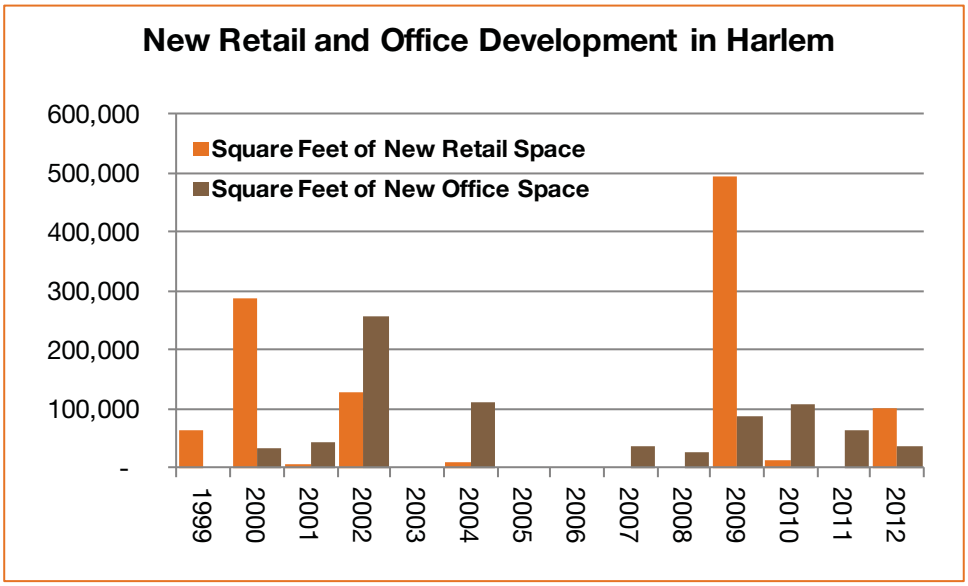
As shown below, the bulk of the new residential buildings were built in East Harlem. At 1280 Fifth Avenue, the Robert A. M. Stern–designed project at the corner of 109th Street, 103 units were added in 2010. Next Spring, the residential portion of 4 East 102nd Street will open. The lower 12 floors of this 42-story building are part of Mount Sinai Hospital. The newly converted condominium building at 1212 Fifth Avenue, also at East 102nd Street, is not included in the charts above and below.

Of course, one could argue that these buildings are more Upper East Side then Harlem and that the lines between the two neighborhoods are blurring – just as they are on the west side. What has become evident is that Harlem has attracted many residents over the last decade [See Harlem by the Numbers].



Source: Eastern Consolidated, CoStar and Property Shark

Developers built more than multifamily. Harlem added or will add 17 new office buildings from 2000 through 2012 with more than 808,000 square feet as well as 9 retail properties with nearly 800,000 square feet.



Source: Eastern Consolidated, CoStar and Property Shark

Note in 2009, the East River Plaza opened on East 116th Street and FDR Drive. The 475,000-square-foot shopping complex has a Costco, Target, PetCo, among other stores, as well as an 18,000-square-foot parking garage.

Yet what are conspicuously missing in all of the new developments are hotels. Only one hotel, the Aloft Hotel at Frederick Douglass Boulevard and West 124th Street, has opened in the last five years. It opened in January of this year. A recent search came up with a handful of small bed and breakfast hotels, but otherwise, there is no hotel in Harlem other than the new Aloft. This is especially noteworthy given that elsewhere in Manhattan more than 80 hotels have been added to the hotel inventory since 2007 with more than 13,500 hotel rooms. Another 20 are under construction but not one of these is in Harlem.

Harlem's Future 125th Street and Beyond

When the city's Department of City Planning re-zoned the 125th Street corridor in 2008, it envisioned significant re-development that included residential high-rises, new commercial space and retail complexes. But planners also hoped that much of the Harlem heritage would be restored at a number of cultural landmarks along the boulevard. Unfortunately, the timing of the rezoning plan coincided with the start of the real estate crash so any and all development plans at the time were mothballed for a few years.

Much has changed in the last year or so as a number of developers have re-started projects. One such plan involves the redevelopment of The Victoria Theater, a former luxury vaudeville theater built in 1917 by Thomas W. Lamb in the heart of West 125th Street between Frederick Douglass Boulevard and Adam Clayton Powell Boulevard. This terra cotta building had undergone a number of changes over the decades before shutting its doors in 1989 following a short run as a five-screen movie theater. In 2005, the Empire State Development Corporation gathered proposals from developers to turn the Victoria into a mixed-use hotel, condominium and arts complex. In 2007, ESDC chose Danforth Development Partners to re-development it.

Danforth's early plans were thwarted by the real estate correction but in March of this year, the company joined with a new equity partner, Exact Capital, to re-start the $100 million project. The preliminary designs by Aufgang & Subotovsky Architecture and Planning call for two towers to rise above the theater: a 140-unit rental building and a separate 175-room hotel. The base will consist of the historic building that will become the new home of the Classical Theater of Harlem, Jazzmobile, the Harlem Arts Alliance and the Apollo Theater Foundation. The theater's facade will be preserved, as will many of its other historic fixtures.

Across the street from the Victoria, Mart 125, a new mixed-use project will create up to 67,000 square feet of cultural and commercial space. Tenants include the National Jazz Museum in Harlem and ImageNation Sol Cinema, which runs an independent film festival.

Further west, the Taystee Bakery complex near Amsterdam Avenue is being redeveloped by Janus Partners LLC and Monadnock Construction. They plan to rebuild it as Create @ Harlem Green, a $100 million development that will include 90,000 square feet of office space, 40,000 square feet of retail and a 10,000-square-foot community facility. Tenants signed on for the site include the Harlem Brewing Company and the Greenpoint Manufacturing and Design Center that will sublease 1,000 to 5,000-square-foot blocks to light manufacturing and artisan companies.

In East Harlem, 125th Street Equities LLC will renovate the Corn Exchange Building, a late 19th-century building at 125th Street and Park Avenue that will add six stories to create 22,000 square feet of office space and 9,000 square feet of retail.

The New York City Economic Development Corporation which has been instrumental in these latter two projects announced that $116 million in private development will be involved. The projects will provide 350,000 square feet of new commercial space, create 530 permanent jobs and 570 construction jobs.

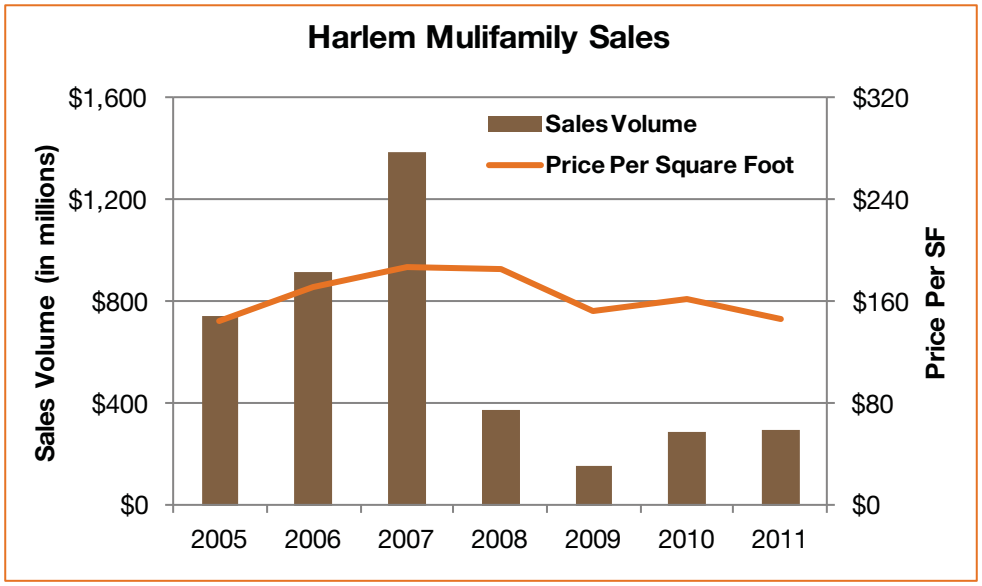
Finally, a fifth project, the East Harlem Media, Entertainment and Cultural Center, covers six acres between East 125th and East 127th Street from Second to Third Avenue and is planned to eventually include a hotel, 250,000 square feet of office space and more than 800 units of housing. Its first phase which is close to completion includes only 49 units of affordable housing and 5,600 square feet of retail space. The second phase, to be started in 2012, will create just under 100 residential units and 50,000 square feet of retail space.

These projects along with the expansion plans for Columbia University will continue to transform Harlem over the next decade and beyond. With each new sign of progress along the neighborhood's storied boulevards, investment activity will increase as will the population, retail development and other neighborhood amenities that will hopefully allow Harlem to flourish while it preserves its historic character.

Multifamily

While the multifamily investment market grew robustly through 2007, sales plummeted in 2008 and again in 2009. The positive development is that sales have picked up significantly in 2011 and will outperform total volume in 2010.

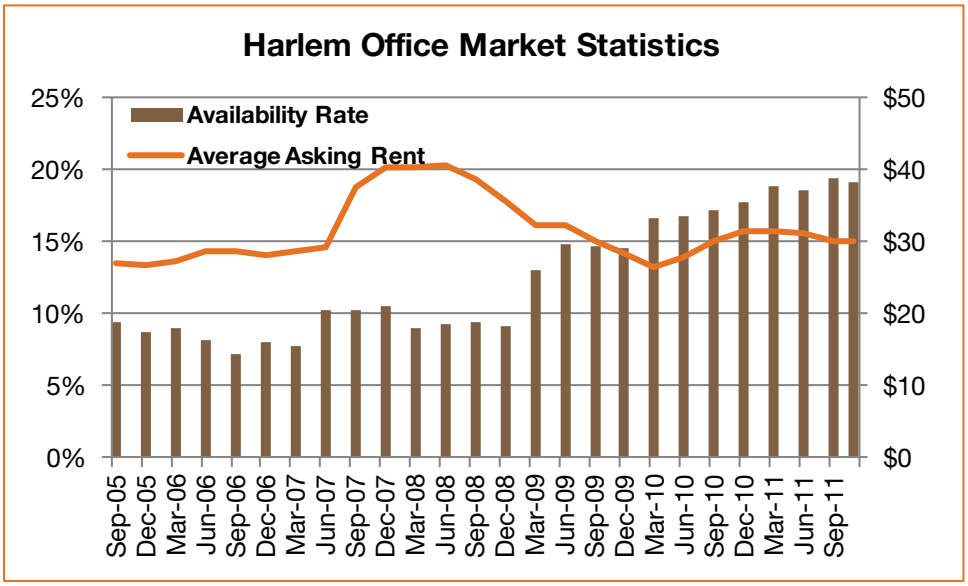
As shown in the chart below, the average price paid has been flat since 2009. While the average price dropped slightly in 2011 suggesting that the Harlem market has not turned around as the rest of Manhattan's multifamily market has [See the recent Real Estate Forefront: Multifamily Investment], a closer look at the data shows that a few large transactions in the northern section of Harlem that traded for less than $100 per square foot had a sizable impact on the 2011 average. For example, the Lionel Hampton Houses at 402-416 Saint Nicholas Avenue traded in October for $32.5 million or less than $100 per square foot.



Source: Eastern Consolidated, CoStar and Property Shark

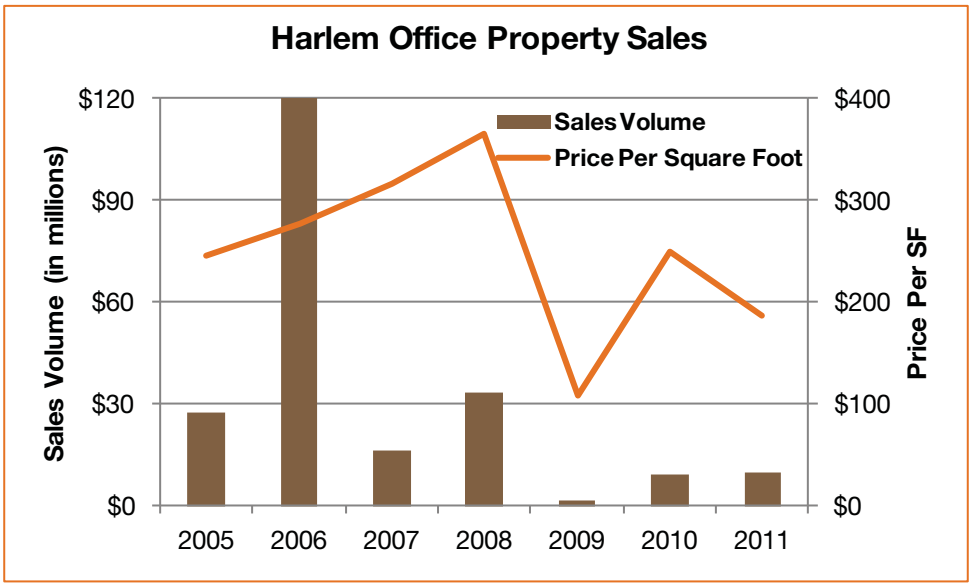
Office

Harlem is not often recognized for its office market which is surprising given its proximity to the Metro North train station on Park Avenue and East 125th Street. Nevertheless, the Harlem office market has thrived. With nearly 90 buildings and more than 5.3 million square feet of space, Harlem's office availability rate fell below 10% in 2008. It has since increased to nearly 20% but it has stabilized. Moreover, asking rents have also stabilized at just under $30 per square foot.



Source: Eastern Consolidated and CoStar

Given this relatively high availability rate, it is not surprising that the sales volume of office properties has not recovered since 2008. Thus far in 2011 there have been five office building sales that have averaged $2 million per sale and $190 per square foot. Last year there were four office property sales that averaged just more than $2 million per sale and $250 per square foot.



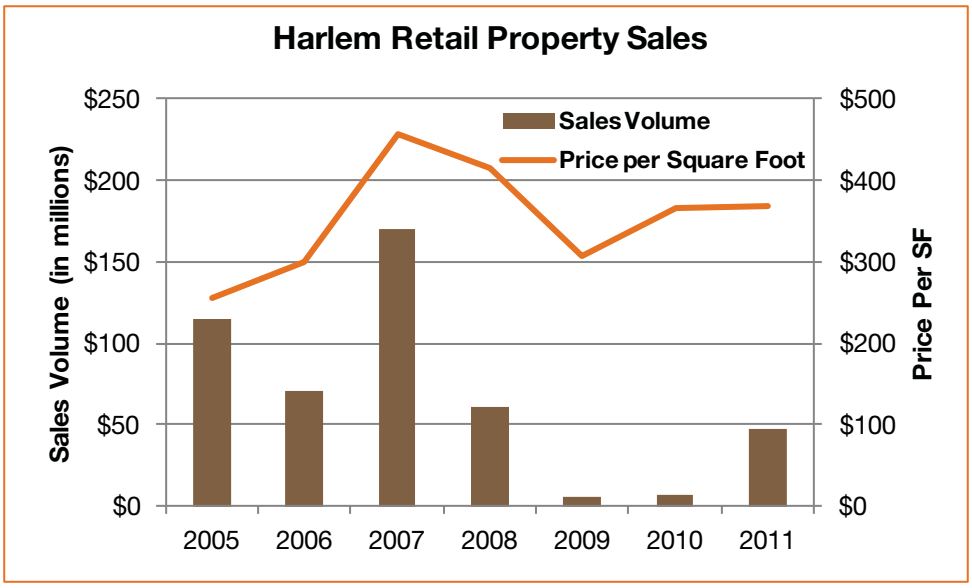
Source: Eastern Consolidated, CoStar and Property Shark

In 2006, the City Investment Fund purchased 55 and 215 West 125th Street for $133 million or $359 per square foot. This transaction dwarfed the others in the chart above. In addition to the office space for former President Bill Clinton, 55 West 125th Street houses a number of government agencies.

Retail

While a number of developers have tried to woo potential office tenants to the area, their timing has never been fortuitous. Instead, developers have had better success focusing on the retail market.

As shown below, the volume of retail property sales increased significantly in 2011 following two years of flat sales. The largest transaction this year involved the retail portion of 125 West 125th Street, part of Madison International Realty's partial interest purchase of Forest City Enterprises's retail properties.



Source: Eastern Consolidated, CoStar and Property Shark

Note in the chart above that although sales volume plummeted in 2009 and 2010, the average sales price per square foot did not decline significantly and has since climbed back to just under $400 per square foot.

Investors in retail properties in Harlem have learned what national retailers had already figured out: Harlem had been severely under-retailed, and still likely is. Any demographer would find this unfathomable considering that Harlem is one of the most densely populated neighborhoods in the city, let alone the country. At 67,000 people per square mile, Harlem's density is just under that of Manhattan overall, 72,100 per square mile as of the 2010 Census.

According to City Planning's 2000 Census statistics, community districts 9 (Morningside Heights/ Manhattanville) and 10 (Central Harlem) were ranked as the 6th and 8th densest community districts, respectively, out of 59 city-wide community districts. District 11 (East Harlem) was ranked 17th, although with the population growth in East Harlem, this ranking is probably higher in the 2010 Census.

While data on median family income from the 2010 Census is not available, the population data shows that Harlem's population grew by 8,780 or 2.7% which is just under the growth rate of Manhattan, 3.2%. Moreover, the number of housing units increased by 6,419 or 4.7%. In other words, there is significant potential for further population growth in Harlem.

Religious Institutions

Yes, you read that right. In nearly every MetroGrid report we cover five property types: development sites, multifamily, office, retail and hotels. But every once in a while a different property type emerges in the sales data. For this Harlem report, there were next to no hotel sales over the last five years but there have been ten sales of buildings used for religious purposes. In fact, there have only been 21 sales of religious properties since early 2007 in all of Manhattan.

The most recent sale of 2050 Fifth Avenue, the former Mount Moriah Baptist Church, traded in October for $2.8 million. [See The Deal is in the Details.]

Year	Sales Volume	Square Feet	Price Per Square Foot	Number of Transactions
2007	$12,775,000	27,059	$472	3
2008	$5,570,000	37,019	$150	4
2009	$8,750,000	16,775	$522	1
2010	$1,850,000	10,370	$178	1
2011	$2,775,000	15,510	$179	1

It is no surprise that Harlem has a lot of churches. In fact, there are a number of tour buses that provide "spiritual tours" in Harlem; that is they take tourists to the many historic churches in Harlem. What is odder about the overall sales data is that there are so few hotels to speak of. That is only starting to change – the Harlem Aloft Hotel that opened in early 2011 is the area's first major hotel since the closing of the Hotel Theresa at the end of the 1960s and plans for the redevelopment of the Victoria Hotel on West 125th Street include a hotel. But with all of the night life, history and, yes, Sunday morning religious activity, Harlem could support more hotels.

Conclusion

City planners recognized more than a decade ago that not only was Harlem an underserved community but that it offered significant upside potential as a residential, commercial, retail and tourist destination. Therefore, the city underwent a series of studies to try to rezone many parts of Harlem to tap this potential. In fact, of all Manhattan neighborhoods, few have been under the zoning and City Planning microscope as much as Harlem has.

In 2010, City Planning issued its fourth Harlem rezoning plan in less than 10 years. This current plan, for West Harlem, is less generous in its overall allowance for development than previous plans in other Harlem sub-neighborhoods had rezoned for. In short, the West Harlem plan, which has not been passed yet, calls for more uniform zoning that would preserve the neighborhood's character; allow for more mixed use development in the southern manufacturing district favoring non-residential uses over residential in the area; allow for development along the West 145th Street to preserve it as an east-west corridor; and facilitate opportunities for more inclusionary, affordable housing in the area.

The other three Harlem rezoning plans passed in 2003 and 2008 offered more developer-friendly proposals:

— The East Harlem rezoning plan, approved in June 2003, aimed to promote residential development in East Harlem so long as it was consistent with neighborhood character. It also encouraged ground floor retail and service uses. This plan's geographic reach included most of Community Board 11, extending as far south as East 99th Street.

— Later that year, in November, a re-zoning plan was passed for Frederick Douglass Boulevard. This plan nearly doubled (from 3.44 to 6.02 FAR) the residential density allowed in the area bound by Frederick Douglass Boulevard, Morningside Avenue, West 124th Street and along Central Park North.

— Finally, the 125th Street plan, passed in April 2008, included several key planning areas: zoning, transportation, the arts, and public streetscape improvements. It allowed for increased density in areas that can accommodate it and encouraged more residential uses. It especially aimed to increase visitors and nighttime activity and encourage a diverse mix of businesses, including arts and entertainment.

These plans included significant neighborhood input as well as that of a number of urban planners who recognized that Harlem has a great deal of character and a rich heritage that had not been fostered in a number of years.

Clearly these rezoning plans spurred tremendous development as well as investment. The charts herein show that investment activity climbed significantly from 2005 through 2007 before declining in 2008 through 2010 and has since rebounded, although slowly. It is safe to say that multifamily and development site investors have returned and bought properties in Harlem this year, but office and retail investors have not shown the same renewed interest.

This will change in the next year or so as more and more recognize that Harlem's destination as a place to live, study, visit, work or shop has surged. Harlem's growth has been accommodated by its generous transportation access including not only the Metro North train station but direct bus lines to the airports. Indeed, even car traffic has increased since the opening of East River Plaza as many shoppers drive to East Harlem to do their bulk shopping at Costco and Target instead of traveling to Queens, West Chester or New Jersey.

In sum, while Harlem may have suffered more than the rest of Manhattan during the recent recession, its appeal as a submarket with considerable upside potential has not escaped the attention of savvy investors who have started to resume their acquisitions in the area.

Housing Units

Location	2000 Total Housing Units	2000 Occupied Housing Units	2000 Vacant Housing Units	2010 Total Housing Units	2010 Occupied Housing Units	2010 Vacant Housing Units
Harlem	135,569	122,712	12,857	141,988	130,267	11,721
Manhattan	798,144	738,644	59,500	847,090	763,846	83,244
New York City	3,200,912	3,021,588	179,324	3,371,062	3,109,784	261,278

Change in Housing Units: 2000 - 2010

	Total Housing Units		Occupied Housing Units		Vacant Housing Units	
	Number	Percent	Number	Percent	Number	Percent
Harlem	6,419	4.7%	7,551	6.2%	-1,136	-8.8%
Manhattan	48,946	6.1%	25,202	3.4%	23,744	39.9%
New York City	170,150	5.3%	88,196	2.9%	81,954	45.7%

Note that while the number of new housing units grew by 4.7%, slightly less than Manhattan's rate of growth, the growth rate in the number of occupied units in Harlem far outpaced that of Manhattan and New York City. More importantly, the number of vacant units in Harlem declined.

Population

	2000 Total Population	2000 Under 18 Years	2000 18 Years and Over	2010 Total Population	2010 Under 18 Years	2010 18 Years and Over
Harlem	319,852	82,846	237,006	328,634	68,446	260,188
Manhattan	1,537,195	257,916	1,279,279	1,585,873	234,435	1,351,438
New York City	8,008,278	1,940,269	6,068,009	8,175,133	1,768,111	6,407,022

Change in Population: 2000 - 2010

	Total		Under 18 Years		18 Years and Over	
	Number	Percentage	Number	Percentage	Number	Percentage
Harlem	8,782	2.7%	-14,400	-17%	23,182	10%
Manhattan	48,678	3.2%	-23,481	-9%	72,159	6%
New York City	166,855	2.1%	-172,158	-9%	339,013	6%

Harlem's population growth was in line with Manhattan overall and New York City. However, there was a noticeable demographic shift in Harlem toward fewer youth in Harlem and more adults.

Population Density

	2000 Population	2010 Population	Land Area (In Miles)	2000 Population Density	2010 Population Density
Harlem	319,852	328,634	5	65,434	67,230
Manhattan	1,537,195	1,585,873	22	69,873	72,085
New York City	8,008,278	8,175,133	302	26,517	27,070

Source: Eastern Consolidated, the U.S. Census Bureau and NYC Department of City Planning

Harlem's population density growth was also in line with Manhattan and New York City.

The Deal Is In The Details: 2050 Fifth Avenue

On one of the more prominent blocks of Central Harlem, the former Mount Moriah Baptist Church building was purchased by the sculptor, Ugo Rondinone. The building located a few blocks from the famed Apollo Theater as well as Sylvia's Restaurant, was sought after due to its location and original design. The property features a gothic and tudor façade with Romanesque arched stained glass windows.

Because of its architectural and location appeal, a number of religious groups showed interest in buying the property. The 15,500-square-foot church could accommodate a congregation of up to 700 parishioners. Louis Ricci, Director, who along with Alan Miller, Senior Director, represented both the buyer and seller. According to Mr. Ricci, "The listing attracted as many as 80 churches, synagogues, schools and other commercial users. Towards the end of the eight-month marketing process we had five bidders that showed interest in the property for various uses, but ultimately, Mr. Rondinone prevailed."

The artist paid just under $200 square feet for the 15,500-square-foot property. He plans to completely restore the building and create a community-based cultural space.

Built in 1880, the former Mount Moriah Bapstist Church was designed by prominent church architect Henry Franklin Kilburn. The same architect designed such notable churches as the West-Park Presbyterian Church and St. James Episcopal Church Parish House in the Bronx.

The previous owner, RLB 2050 Funding LLC, had bought the foreclosed-upon property in July 2008 at auction. A number of neighbors expressed concern that the property would be redeveloped as a residential building. But the owners who approached Mr. Ricci and Mr. Miller about selling the property in February accepted Mr. Rondinone's offer and the deal closed in mid October, ahead of schedule.

Many are relieved that the property was not sold to a developer. From 2007 through 2011, as many as 10 properties categorized as "religious facilities" were traded in Harlem. In all of Manhattan only 21 church-related properties traded hands during the same period including two just north of Harlem, in Washington Heights. Clearly, Harlem's spiritual heritage has had an impact on the real estate market.

Harlem Comparables

Development Sites

Property Address	Square Feet	Date	Price	Price/Buildable SF
66 East 125th Street	75,690	12/15/2010	$11,847,875	$157
2211 Third Avenue	79,061	6/27/2011	$11,450,789	$145
235 Saint Nicholas Avenue	57,600	6/28/2011	$8,138,000	$141
64-68 West 125th Street	56,918	8/18/2011	$7,100,000	$125

Multifamily

Property Address	Square Feet	Date	Price	Price/SF
121 West 131st Street	3,816	8/3/2011	$1,834,259	$481
506-510 West 150th Street	43,200	8/24/2011	$6,350,000	$147
102-104 Convent Avenue	24,465	9/27/2011	$4,850,000	$198
838 Riverside Drive	56,190	9/29/2011	$9,400,000	$167
2027 First Avenue	11,500	9/30/2011	$3,075,000	$267
245-247 West 113th Street & 108-110 West 111th Street	43,344	11/9/2011	$6,300,000	$145
104 West 113th Street	4,640	11/11/2011	$1,900,000	$409

Office

Property Address	Square Feet	Date	Price	Price/SF
104-106 East 126th Street	16,220	08/30/11	$3,250,000	$200
206-208 East 119th Street	7,750	10/31/11	$2,400,000	$310
2110 Frederick Douglass Boulevard	5,231	11/18/11	$2,400,000	$459

Retail

Property Address	Square Feet	Date	Price	Price/SF
160 East 110th Street	16,000	2/25/2011	$6,500,000	$406
125 West 125th Street*	61,740	3/30/2011	$30,506,160	$494
2032 Third Avenue	1,237	4/7/2011	$600,000	$485
1916 Third Avenue	2,020	9/15/2011	$1,275,000	$631

*Partial Interest