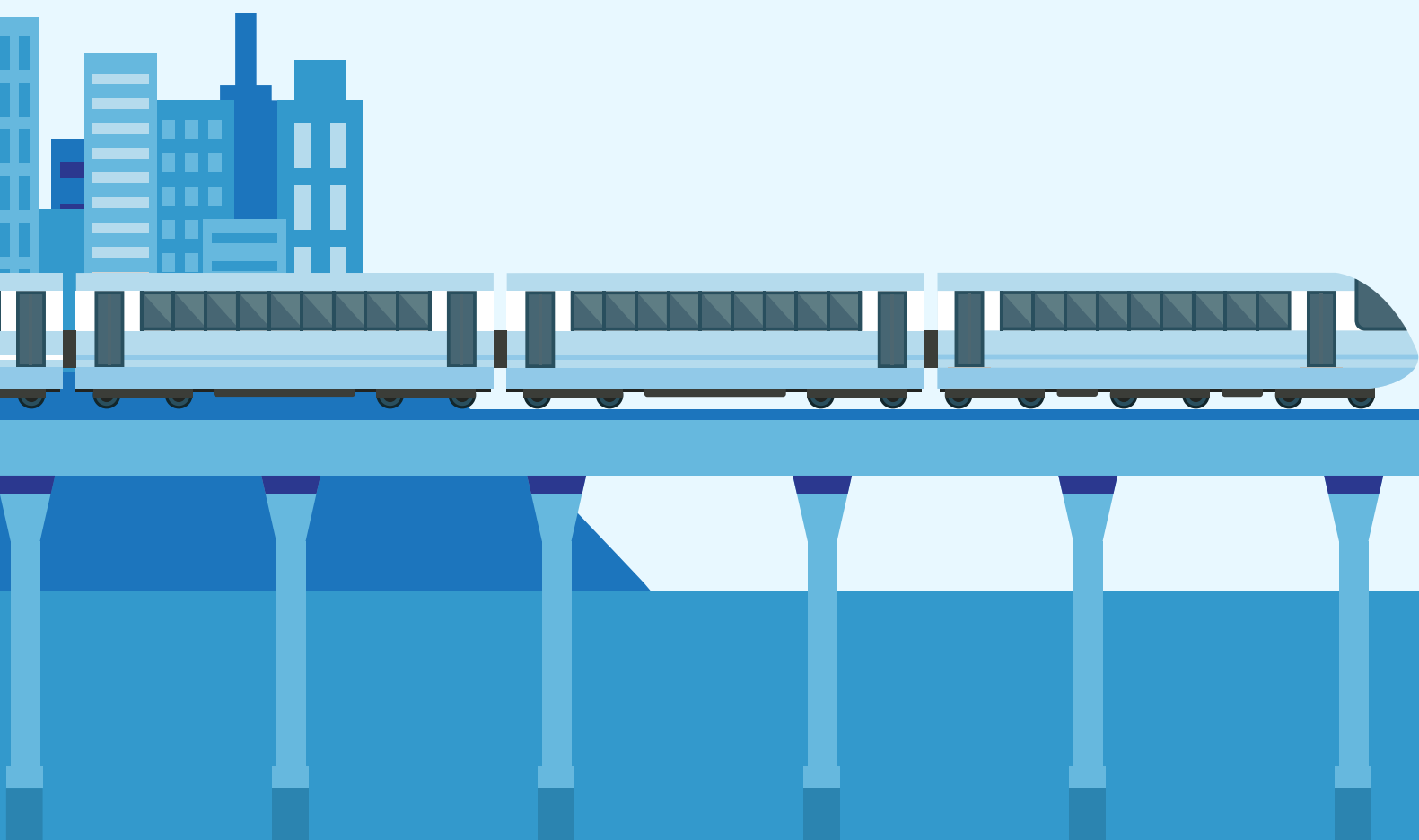


Investing in the 'City' of the Future



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Key Takeaways

1. Traffic and transit are driving value
2. Understanding the ins and outs of the transit system is critical
3. Driverless cars will kill the parking lot
4. E-commerce is changing the cityscape
5. The “downtown” of the future is not downtown

The Experts



Matthew Baron
President,
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Kenneth Weissenberg
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↓ CONTINUES ON NEXT PAGE

1. Traffic and transit are driving value

For all the talk of autonomous vehicles, traffic is not going anywhere soon. The Federal Highway Administration reported in its Traffic Volume Trends study that Americans drove more than ever in the first half of 2017. And as the ever-increasing cost of urban real estate pushes workers outward, traffic will continue to grow.

“We’re seeing a lot of trends coming together, drawing the very rich into the center of the city and pushing the working person further out,” said Kenneth Weissenberg, a partner-in-charge at EisnerAmper LLP. This exodus drives up the value of property near transit lines and hubs.

“We’re very focused on proximity to transportation, as we invest around central business districts like New York City,” said Matthew Baron, president of Simon Baron Development. “Long term, if we’re talking about how cities are growing, understanding how the transportation landscape is changing and the kinds of access to transportation that people are going to have, that’s really going to have an effect on asset values.”

Seth Pinsky, executive vice president at RXR Realty, agrees with this assessment, noting the rising value of property near the subway and beyond in New York City. “The question we’re asking now is, as the subway system reaches capacity and as people begin to get near the end of subway lines, where else is there to go?” he said. “One of the things we’ve been exploring very closely is the suburban transit lines. And what we’ve found is that, in many older suburban communities, you see downtowns that feel very much like outer-borough neighborhoods.”

2. Understanding the ins and outs of the transit system is critical

As investors, how do you get a good handle on the ability of people living in a certain neighborhood to get around? Well, checking Google Maps is not enough, nor is listening to local traffic on the radio. Due diligence on urban real estate means getting on the train—and riding it again and again.

This goes for both developers and investors, Baron said. “When we were first talking to our lenders, we said to them, ‘Guys, don’t Uber here, don’t drive here. Take the train.’ And every single one of them



New York’s Biggest Suburb?

Kenneth Weissenberg
EisnerAmper LLP

Does Philadelphia have the potential to be New York’s biggest suburb? It’s not as odd as it sounds. Over the last decade, many New Yorkers have relocated to Philadelphia because the cost of living is considerably lower in the City of Brotherly Love.

As things stand today, it takes more than 90 minutes to make the commute between Philly and Manhattan. But what if a high-speed rail service were built that would cut that time in half? If this ever happens, Philadelphia would likely see a massive influx of New Yorkers attracted by the cheaper housing.

In the rider’s mind, the time it takes to make the commute is far more important than the actual distance. For most commuters, it’s minutes and hours—not miles—that measure how close they are to a particular location.

“Philadelphia could boom,” said Weissenberg. “I live in northern Westchester, where the commute’s about an hour and five minutes to Manhattan. So even today, Philadelphia is commutable.”

who came to look at the project said, ‘Oh, my God, we can’t believe how quickly we got here.’ I think if you’re not in the neighborhood, if you don’t spend time there, you don’t understand it.”

Also important is staying current with the region. “Read blogs, read news sources,” Pinsky said. “Because you not only need to understand what’s happening, you also need to understand what policymakers are doing and how that’s going to change what happens going forward.”

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Take New York City, for example. An investor coming into New York for the first time might ride the L train to Williamsburg and think, "Great, I'll put all my money here," only to later discover that the L train is going to be shut down for a year and a half.



The Demise of the High-Rise

Seth Pinsky
RXR Realty

New York is one of America's most successful cities. High population, high employment, high tourism. But success comes with a price: the high price of real estate.

For years, New York addressed the supply side by constructing densely packed high-rise buildings. But this is becoming less and less feasible, due to the rising cost and local opposition.

"There's so much pressure being put on prime areas that the only way to address it is through density," Pinsky said. "But at the same time you have people in these communities who legitimately don't want the character of their community changed on a wholesale basis."

The only way out of this situation is, well, out. Pinsky said the solution is building out rather than up. "Transportation really is the only option that we have," he said. "Instead of squeezing ten 100-story buildings into a limited area, if we invest more in transit infrastructure we can build 100 ten-story buildings, which is a lot easier to do."

3. Driverless cars will kill the parking lot

Autonomous vehicles, when they do arrive, will change cities in many significant ways. One of the first places they'll make an impact is at the parking lot.

"If driverless technology expands the way people are talking about, where it makes owning a car unnecessary or you own your car but it basically acts as an Uber while you're at work, then you start to lose the need for parking garages," Baron said. "They effectively become obsolete real estate."

Already, Uber and other ride-hailing companies have made an impact. Baron said his firm bought a parking garage in Manhattan two years ago and tore it down, even though parking in the area starts at over \$1,000 a month.

"Uber has changed the way people think about owning a car in the city," Weissenberg said. "Pop on your phone and there's Uber in five minutes tops. You go where you want, and you don't have to pay \$1,000 a month."

The tricky part of the driverless calculation, of course, is timing. The technology will get here sometime in the future, but developers need to build today. "You need to get it financed today, you need to find investors today, you need to find tenants a year or two from now," Pinsky said. "My grandfather, in the 1950s, was buying property on Second Avenue, preparing for the Second Avenue subway. He's dead, and this year it finally opened."

4. E-commerce is changing the cityscape

Driverless cars may be somewhere off on the horizon, but online shopping has already brought seismic change to the cityscape. It has fundamentally altered the economics of buildings. It's no longer possible to reliably underwrite retail rent. At street level, retail shops aren't there anymore.

"People are trying to figure out different retail uses to fill those ground-floor spaces, but I don't know that anyone has the magic formula yet," Pinsky said. And the changes don't stop at ground level. When the shops and jobs are gone, so are the people, and the places they once lived go empty.

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"I think about how I use retail today. When I was growing up in Brooklyn, we used to go to the supermarket every week, and I'd come home with all the different bags," Baron said. "I have three kids, and our fridge is always full, but I don't remember the last time I went into a supermarket to buy milk or eggs. I don't remember the last time I went into a store. The shirts I'm wearing were bought online. When I think about the way I use retail today, I think there's been a seismic shift in how we shop and how we spend money."



Technology Is Disrupting Real Estate

Matthew Baron

Simon Baron Development

The advent of technologies like Uber has made owning a car a lot less attractive for people living in dense urban areas like Manhattan, where parking can be a very large expense. Now that trend is spreading to smaller cities, towns, and boroughs.

"We have a 160,000-square-foot building in Long Island City with a 15,000-square-foot parking garage that we leased out to an operator," Baron said. "And when we came back to see how many of our tenants were leasing a parking spot, I think it was just one or two."

The rise of autonomous vehicles is sure to accelerate this trend. "How is the driverless car going to impact suburban areas, and how are areas farther outside of the central business district going to be affected?" Baron asked. "Whether or not people can afford a vehicle, I think more will decide they just don't need it."

In the meantime, more questions are coming, because e-commerce is changing cities in ways that are very hard to predict, especially for a sector as slow to transform as real estate. "Real estate tends to move really slowly," Baron added. "But e-commerce is happening quickly. It's like marrying e-commerce and real estate, and one moves really fast, one moves really slow."

5. The "downtown" of the future is not downtown

In New York over that last decade or two, more and more people have been squeezing into core markets, driving up costs. That, in turn, drives people into what were once peripheral areas. At first this meant places like Brooklyn and Queens. Now it means places like New Rochelle.

"This is an area that's ripe for this kind of change, which people have historically not paid close attention to—historic suburban downtowns," Pinsky said. "...To get from New Rochelle or Yonkers, which is another community where we have investments, is roughly 30 minutes to Grand Central. It's as accessible, in many ways, as outer-borough neighborhoods."

RXR's New Rochelle development includes commercial (2.2MSF of medical and nonmedical office space), residential (5,500 units), retail (1.1MSF of retail and restaurant use), hotel (300KSF of hospitality space), and other uses (2.3MSF of student housing, adult care, and institutional space).

The city boasts diversity, walkability, and architectural character, all in an urban environment which just happens to be in the suburbs. RXR partnered with the city of New Rochelle to work as the master developer of a development plan for the downtown, with 11 million square feet entitled.

"New Rochelle is a community that for many years was quite resistant to development," Pinsky said. "But like a lot of suburban communities, it realized that its traditional model was not working and it needed to do something different to attract the workforce and the businesses of the future. It's a real downtown in a suburban community, and I think it will be a model for other downtowns." ■

About EisnerAmper LLP



Kenneth Weissenberg

Partner-in-Charge, Real Estate Industry
EisnerAmper LLP

EisnerAmper LLP is a leading global accounting and advisory firm with a large national real estate practice. Not only do we bring real estate expertise to every transaction, but to advise clients, we have a wealth of other practice areas within the firm that are at our disposal.

We have private wealth advisory services. We have family office services, pension and profit-sharing-plan advisory services, corporate finance for due diligence. We have a large fund practice area, which for real estate funds is vital. The firm is really a full-service firm.

We hold events throughout the country. We work with all of our offices, in every location, to build a network of real estate owners, operators, and investors. Not only do they know each other, but they know us, and we are able to connect people, make deals happen, and really focus on business. ■

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Investing in the 'City' of the Future



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