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COMMERCIAL REAL ESTATE

Soaring Condo Project Coming to Long Island City

Queens neighborhood has seen surge of residential development in the last decade

Rendering of a 67-story condominium tower in Long Island City expected to be completed in phases between 2021 and 2022.
PHOTO: MAQE

By Keiko Morris

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A venture planning to develop a soaring condominium tower in Long Island City, Queens, has scored a $502 million construction loan for the 802-apartment project that will test demand in this relatively new condo market.

A group of banks—led by JPMorgan Chase & Co.—made the loan at the end of June to the venture led by Queens-based developer Chris Xu, according to Meridian Capital Group, the firm that brokered the financing. The group began foundation work on the 67-story tower at 23-14 44th Drive late last year.

Long Island City has seen a surge of residential development in the last decade, with towers lining the East River near the landmark Pepsi-Cola sign. But, until now, most of the new apartment buildings have been rentals.

New condo buildings in Long Island City have averaged about eight stories and 60 apartments, according to residential brokerage Stribling & Associates. “There has never been a project like this before in Long Island City,” said Patrick Smith, a broker with Stribling.

Obtaining a construction loan is a major milestone for Mr. Xu and his partners, who have been active condominium and hotel developers Queens. The 44th Drive project is their biggest one to date.

The size of the construction loan also is notable given that traditional bank lenders such as JPMorgan Chase generally have had limited appetite for that business, even as the country’s economy has rebounded. This has been especially true in the New York City condo market in the last two years, following a flurry of ultraluxury development.

Much of the construction financing has been done by “nonbank lenders,” such as debt funds raised by private-equity firms. “This was a syndicated bank deal. We did not have to go to a debt fund to get this deal done,” said Morris Betesh, the Meridian senior managing director who brokered the transaction.

JPMorgan Chase declined to comment on the loan.

The total cost of the project is about $700 million. Mr. Xu’s partners include Henry Yeung, Brian Pun of FSA Capital and Risland U.S. Holdings LLC, a Hong Kong-based developer.

The team hopes to begin presales of apartments ranging from studios to four-bedroom units at the end of this year or the beginning of 2019, said Eric Benaim, chief executive of Modern Spaces, the real-estate firm marketing the 778-foot-tall tower. The apartments will be completed in phases between 2021 and 2022.

Sales have been slow in the New York City condo market lately, but mostly in the lofty price range of $5 million and above. The developers of the Long Island City project are hoping their more affordable price range of about $500,000 to $4 million will spur stronger demand.

"We were building too much of the same subset of the market, which was luxury and super luxury," said Jonathan Miller, chief executive of real-estate appraisal and consulting firm Miller Samuel Inc. "So you saw a lot of construction pivot to more modest priced developments, apartments around $1 million to $3 million."

Brokers believe that Long Island City's rental-apartment construction boom has primed the market for condos, creating potential buyers from renters who have established roots in the area.

Apartment sales have grown annually to 248 in 2017 from 150 in 2015, according to Stribling's data. The median price also has risen, increasing to $1,016,500 from $880,500.

The developers face other potential challenges, such as rising interest rates that would make it more expensive to buy. Also, the growing supply of new rental apartments may make the option of renting more enticing for potential buyers, as some landlords offer concessions to lease.

"The biggest concern would be if there is in fact an oversupply of rental units," said Michael Lefkowitz, an attorney specializing in commercial real estate. "I could foresee sales getting slower because people are saying, I can rent a lot cheaper than I could buy on a monthly basis."

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