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HFZ vs. the market

Ziel Feldman set tongues wagging when he borrowed $1 billion for a site near the High Line, and with the project now topping out, the market is not cooperating

By Adam Piore | March 01, 2019 12:00PM

Ziel Feldman (Illustration by HelloVon)

There's nothing particularly modest about Ziel Feldman's megaproject rising on 11th Avenue along the High Line — except maybe the pace of early sales.

Nearly six months after it officially launched in September, deals at the twin-towered, Bjarke Ingels-designed development, "the XI," are reported by brokers to be slow. It's a problem that is by no means unique to Feldman's HFZ Capital Group — the entire high-end residential market is sluggish.

But it's certain to prolong one of the most persistent debates among those watching New York City development: Will Feldman make money or get burned on one of his most ambitious, high-stakes projects to date?

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"I can't imagine Ziel losing money. It would be unusual for him," said Leonard Steinberg, president of the brokerage firm Compass, which has put one unit in the building into contract and is completing another deal. “But I think this one is cutting it a bit close, because it’s so big.”

Feldman’s twisting, asymmetrical, bronze-and-travertine towers — which are slated to top off early this month — have generally drawn rave reviews from brokers (including Steinberg) and other developers, impressed by the location, planned amenities and marketing to date.

The 950,000-square-foot project will include 236 condos with the two towers connected by a skybridge, as well as a 137-key, five-star Six Senses resort and spa and 60,000 square feet of amenities. The plan also includes 25,000 to 30,000 feet of retail and a new park.

But the project — which takes up a full city block bounded by 17th and 18th streets and 10th and 11th avenues — is aiming for prices roughly twice the per-square-foot average in West Chelsea around the High Line.

Average condo prices in the immediate High Line area are only $1,934 a square foot, according data from Stribling & Associates.

Feldman is shooting for roughly $4,000 per square foot overall; the project also includes two $70 million penthouses, which would set a Downtown record if they sell for their nearly $5,000-a-square foot asking prices.

If HFZ pulls off those prices, it will be in exalted company.

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ZIEL FELDMAN
HFZ CAPITAL GROUP

In the first 11 months of 2018, only two Downtown properties — Related Companies’ 70 Vestry Street and Silverstein Properties’ 30 Park Place — hit those numbers. Those buildings have sold at an average of $3,945 and $4,231 a square foot, respectively, on their sales to date, according to brokerage CityRealty.

In an interview with *The Real Deal* last month, Feldman said the level of amenities at the XI have more in common with those properties and the opulence around Central Park and Billionaires’ Row than anything in the immediate vicinity.

“We’re our own neighborhood,” Feldman said. “Unless you want to be on Central Park and you want to pay a huge premium to what we’re selling our apartments for, there’s no better offer in New York. When you comp us to the finest buildings in the city, we’re trading at a discount.”

But the success of the XI, which has a projected sellout of $1.96 billion, will depend on whether the pool of luxury buyers agree with him in a market already crowded with high-end product. And the XI is not

HFZ's only megaproject right now. In total, the firm has $3 billion-plus worth of condos either on the market or coming to market.

It's also converting a portion of the rentals at the Upper West Side prewar building known as the Belnord to condos. However, that project, which has a projected sellout of $1.37 billion, seems to be selling at a faster pace.

At the XI, HFZ is sparing little expense to convince buyers to pull the trigger. It's built an opulent sales office a block away from the southern end of the High Line. Part art gallery, part model apartment, the space features installations by designer Es Devlin, known for her elaborate stage sets for the likes of Kanye West, Lady Gaga and U2.

Her massive 30-by-30, three-dimensional, all-white Manhattan panorama, carved into the front wall, depicts Chelsea and the High Line as the city's center. Deeper into the sales office, model rooms are set up like art exhibits including (among other things) a foyer with a eucalyptus wall, a silver travertine floor and large screens simulating windows with river views.

The showroom's centerpiece is a large model of the twisting buildings on a rotating platform surrounded by an elevated pool of water.

"People were impressed by Gary Barnett's sales office at One57 when it came out," said Steinberg, who estimated HFZ spent $10 million on the XI's sales office. "This makes One57's gallery look like a poor cousin. This is big, big money."

No room for error

But with all of the money going into the XI, many are wondering just how much of a financial cushion Feldman and HFZ have — particularly as the high-end market is dealing with an across-the-board slowdown.

One broker who has done deals in the building said he was told that HFZ had received scores of offers far below asking prices at one point and declined to counter any of them.

HFZ officials acknowledged that early sales have been slow, and that it has discounted some units up to 10 percent. But they insisted that there were only a few of those offers and that things are proceeding on pace.

A rendering of the XI, where HFZ is asking roughly $4,000 a square foot on average

In addition, some pointed out that HFZ reportedly owns a 50 percent stake in the Six Senses, which will throw off an immediate revenue stream once the building opens.

Despite that, some watching the project remain unconvinced.

"He's very highly leveraged with an expensive product," said one real estate attorney, who asked to remain unnamed but has knowledge of the project. "There's not a lot of room for error."

The skepticism around the project is not new.

It dates back to 2014, when the market was firing on all cylinders and HFZ emerged as the site's buyer.

To acquire the land, HFZ paid a reported $870 million — roughly $1,100 a square foot — one of the priciest land deals in city history.

Feldman acknowledged that the overall price tag is "a large number" but maintained that he did not overpay.

Andrew Gerringer, managing director of the new development firm the Marketing Directors, estimated that buildable land trading in the $900-to-$1,100-a-square-foot range when Feldman made his purchase is likely now trading for between $700 and $800.

"Did he pay a little bit too much? Yeah," Gerringer said. "But he got a great piece of real estate. Now he's got to wait for the market to catch up with him."

Feldman noted that there were two other bidders on the site within 5 percent of his offer.

And the firm secured $1 billion from big-time lenders — including BlackRock, JP Morgan and SL Green Realty — for the dirt and predevelopment costs.

Even in that far stronger market, some were questioning whether HFZ would be able to obtain construction financing with those sorts of numbers.

But in 2017, roughly two years after closing on the site, Feldman landed $1.25 billion in construction funding from the Children's Investment Fund (TCI), a U.K-based hedge fund. It was one of the largest construction loans of the cycle.

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TCI is known to charge as much as 10 percent in interest for construction loans, before fees. In HFZ's case that would amount to $125 million in interest a year once that loan is fully disbursed. One person with knowledge of the financing suggested the rate was closer to 8 to 9 percent with no fees.

Though Feldman declined to disclose all the terms of the deal, he said the extra carrying costs are worth it because the fund offers far greater flexibility than a traditional lender.

He also noted that the hedge fund is known for being involved with some of the most iconic buildings in New York, including Harry Macklowe's 432 Park Avenue and Silverstein's 30 Park Place.

He added that he had his choice of lenders and that even before marketing the loan, the firm received several offers from its existing lenders and others. It went with TCI because it "made us a deal we couldn't refuse" and proceeded very quickly.

"Traditional banks — the Wells Fargos and the JP Morgans and the Citibanks of the world — although the rates are slightly cheaper, are much more restrictive," he said. "And because of the size of the loan, they're also bringing in other parties that want to participate with them. So now all of the sudden you're sitting at a table and you have three, four, five different lenders, each with their own committees to deal with on any decision that has to be made. We did it with one person, and that person's expectation is that they get paid back at the end of the loan. So there aren't the same sales velocity requirements that may exist in many other lenders. We have no time pressure."

Still, since January 2015 there have been only a handful of construction loans that compare in size to the TCI's XI loan, and many of them have been for retail or commercial properties, according to Jim Costello, senior vice president at Real Capital Analytics.

They include the retail component of Hudson Yards at $1.5 billion; the Spiral at 66 Hudson Boulevard at $1.5 billion; 30 Hudson Yards at roughly $1.5 billion; and One Manhattan West for $1.25 billion. (TCI also provided a $1.2 billion loan for 35 Hudson Yards, a condo-hotel hybrid).

For his part, Feldman noted that his loan has a more than five-year term, with extension options. It carries construction completion guarantees but is nonrecourse, he added.

“Some people in this market are having problems because their lenders expect a certain sales velocity,” Feldman said. “There is no financial pressure from [our lender] to sell units before they can be sold.”

Up against the market

If the slow market continues, however, the profit ramifications for the HFZ project — not to mention every other unsold project in the city — are likely to be very real.

Construction costs, which according to other developers in the area can run anywhere from $600 to $1,000 a square foot on the high end, are another unknown. Together, the all-in costs have very likely driven up the price to recoup well into the mid-$2,000s a square foot — at a minimum, sources said.

But Feldman said he’s aiming to match the per-square-foot rates of the city’s priciest buildings — 520 Park Avenue, 432 Park, 220 Central Park South, 15 Central Park West and One57. Last year, those five Manhattan condo towers sold units for an average price per square foot north of $4,400, and many of the units went for well above that.

In addition, Feldman said, the project’s average apartment size is under 2,000 square feet, which will keep many units in the $4 million-to-$8 million range. The idea is to avoid competing with the $20 million-to-$80 million apartment market.

Feldman also insisted that those towers cost far more to construct per square foot because they needed to be taller to achieve Central Park views.

“Our spread going into this deal was enormous,” he claimed. “Do the math. I think as our building gets more complete, our spread should only get higher, not lower.”

By most accounts, since the first condo plan was accepted by the attorney general’s office and the sales office had its “soft launch,” there’s been plenty of interest in the XI. But there’s been far less buying.

That’s because condo buyers have their pick of the litter and tend to steer clear of buying off of floor plans in markets like this.

“People want to see finished units,” said attorney Chris Delson, a partner in the real estate group at law firm Morrison & Foerster. “We’ve even heard of our clients saying, ‘We can’t wait to get the crane down’ so can people can see the view of [a] particular unit and they can sell it.”

But Alf Naman, a longtime broker and developer in Chelsea, said Feldman has built an "exceptional product" in the XI.

"I don't think there has ever been product like this Downtown," he said. "It's really the first real five-star hotel to be built for some time. But from what I have heard, buyers want to see the product up close, so they kind of take their time to make decisions."

Chelsea rivals

Justin Ehrlich, co-founder of Churchill Real Estate Holdings, is raising a $200 million distressed debt fund and noted there are plenty of developers under pressure in the Chelsea area.

He pointed to the Victor Group and Michael Shvo, who inked a $30 million condo inventory loan last month for the Getty Building on West 24th Street to give it more time to unload the remaining four units in the 12-story building. Victor Group declined to comment, and Shvo could not be reached by press time.

To be sure, last June, the developers closed on the sale of a penthouse for $59.06 million (roughly $5,836 a square foot).

But the market has slowed considerably since, and the inventory loan suggests that sponsors have not sold units as quickly as anticipated, Ehrlich said.

Indeed, last year overall sales in Manhattan saw their largest decline since the financial crisis, according a report by Douglas Elliman. By the end of 2018, there was a total of 8,000 new condos on the market, according to market analyst Jonathan Miller, who prepared Elliman's reports.

Ehrlich also said that architect and developer Cary Tamarkin is under "tremendous pressure" from lender Madison Realty Capital at 550 West 29th Street.

"As you go up and down the High Line, you just see a lot of vacant property," he said. "Interest rates popped, you have an enormous amount of inventory between 2012 and 2016, and not everybody is racing to buy an apartment right now. Prices went up too high, too quickly."

Tamarkin, who has done three projects in West Chelsea, agreed with that assessment.

"I think [the market is] basically a nightmarish hell," he said. "Many loans are coming due, many prices are being dropped, people are lobbing offers at incredibly low prices because they know loans are coming due. People are having a lot of difficulty."

To move units, Tamarkin said, he has brought on a new broker, launched a new marketing strategy and dropped prices "so low that it's incredibly good value." That has increased traffic over the last couple months. But the pace is still slow.

"When the market is good, West Chelsea gets a lot of attention and it's fantastic," he said. "But when it's bad, there's just a lot of high-priced stuff … and developers need to decide what to do, to drop prices, try and get out whole or make less money."

Feldman said he is confident in his product and location — overlooking the water and the High Line and close to museums and Google.

Ehrlich said there is validity to that argument. He noted that the XI has a number of distinguishing characteristics and that it's a building people are going to look at because it's "new and highly amenetized"

Andrew Heiberger — founder of Buttonwood Development as well as founder and former CEO of the recently shuttered brokerage Town Residential and of Citi Habitats — said Feldman's location is "the prime of the prime."

"So the question is not whether or not Ziel's project is going to sell out, and the question is not whether or not it's going to be a success," he said. "The question is at what price?"

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