Buzz Talk with Sonny Bazbaz [INTERVIEW]

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Sonny Bazbaz is President and Founder of Bazbaz Development, where he directs all aspects of property development, from project conception and acquisition to design and construction. Sonny holds an MBA from New York University Stern School of Business; before forming Bazbaz Development, he was Senior Vice President at Fisher Brothers.

We chatted with Sonny about development consulting during the downturn, his return to the development game and his firm's expansion into Miami.

BuzzBuzzHome: You took a hiatus from New York development from about 2007 to 2011 to focus on development consulting. How was that experience, consulting on projects in turmoil during the bottoming-out of the economy?

Sonny Bazbaz: It wasn't really a hiatus from development. In 2007, I was working at Fisher Brothers, working on a large project for them in Vegas, a big $4.5 billion mixed-use master project on 100 acres… That's primarily what I was doing between 2007 and 2008. In 2008, I started a development consulting business, Madden Capital, with Mitchell Hochberg. We did a lot of real estate consulting for banks and real estate investment funds that had invested in projects that were in turmoil. In 2010, the market started coming back — that's when we got into the real estate development business again.

I learned a lot during those years. We got pulled into situations with very complicated, distressed projects; the developments that we consulted on were some of those in the biggest trouble. [We worked on] a lot of residential condo projects in the city, and one large hotel and gaming property in Las Vegas. I learned how projects get going down the wrong path, not because of the developer, but just because the market changed… Relationships get strained in this very intense environment. There's a lot of turbulence, and nobody knows if they're going to come out on the other side.

Development consulting helped my ability to manage healthy projects from the very beginning. You're acutely aware of the things that could set you down the wrong path. Also, by being involved with projects in trouble as the economy is improving, you're also on the front lines of the recovery. You notice things first.

BBH: What made you want to get back into the development game? How did you make the adjustment between consulting and development?

SB: I've always wanted to be a developer; I moved to New York to become a developer. It was just a matter of making it through the downturn. Real estate is always a cyclical industry. You have to be patient and wait for the right opportunity. The first two projects in 2010, 2011 that we acquired were both stalled construction projects; my experience doing development consulting for distressed assets gave me a certain level of comfort, so that even the most distressed projects could be saved.

BBH: Your recent development, 37 Warren, hit the market in July 2012. What did you find compelling about this project?

SB: I used to live around the corner, so I'd walk past it almost daily. When I went that way to work, I noticed that 37 Warren was very quiet for probably a 12-month period. I was always interested in the building itself — it's an Art Deco building in the middle of Tribeca, which is traditionally industrial warehouses with Romanesque Revival style architecture. I noticed that the retailer, Benjamin Moore, had left, so basically the building was vacant. I found out that the loan was in default, that the developer was no longer in the country. I reached out to some contacts, found out who held the note and eventually got to a deal.

The prior developer was going to convert it into condos. After we acquired [the property], we started with our own plan for converting the building. Having a vacant building in the middle of Tribeca was the prime opportunity.

We added four new floors to the seven-story building. The vision there was to embrace the historic and structural details; we went to great lengths not to conceal things that other developers might have tried to conceal. We tried to go back to a Tribeca authentic loft from the 1980s, with big kitchens, big bathrooms. This abundance of space was the reason why Tribeca lofts became popular.

At some point, an open floor plan became a loft. Just because you have a kitchen and a living room in the same space doesn't make it a loft. I wanted to upgrade the original Tribeca loft with the kind of attention to detail and finishes you'd get in a new construction luxury condo, but in an authentic boutique building.

BBH: Lately, the new projects in the Tribeca submarket have been trending towards family-sized apartments, such as VE Equities' 11 North Moore and HFZ Capital's 11 Beach Street. Why do you think this is?

SB: Since the last cycle, Tribeca has changed significantly. It became more appealing to families. Even if you just look at the evolution of retailers, the kid-focused retail landscape is significantly different than it was five to ten years ago. This is just the continuation of a trend that started in 2005, 2006, when the area had a scarcity of large, family-sized apartments. I think the trend is going to continue, especially with the development of the World Trade Center. You always had the finance professionals, the attorneys who worked on Wall Street — that demographic is interested in Tribeca, especially those getting married and having children.

It's almost like the one- to two-bedroom market is moving to Soho and Noho and all those other types of neighborhoods.

BBH: Let's talk about your project at 101 West 87th Street, a 62-unit conversion of an Upper West Side rental building. The development launched early because of intense demand. Why do you think it was appealing to buyers?

SB: When I saw 101 West 87th for the first time, I was unimpressed with the building itself. It was completely different from the visceral reaction that I had to the Art Deco building at 37 Warren in Tribeca. [However], what immediately jumped out to me was its location on one of the most beautiful, picturesque streets I've seen in Manhattan, on West 87th Street. It's like out of a Woody Allen movie. When you think of the Upper West Side, of living in Manhattan, that streetscape comes to mind.

There was a lot of development opportunity in the Far West Side, where a lot of the new construction buildings are going up, but there were very few true Upper West Side projects. Our strategy was to offer one-bedrooms in the $900,000s, even three-bedrooms under $2 million. The idea was that many people would love to live in the Upper West Side but can't afford it.

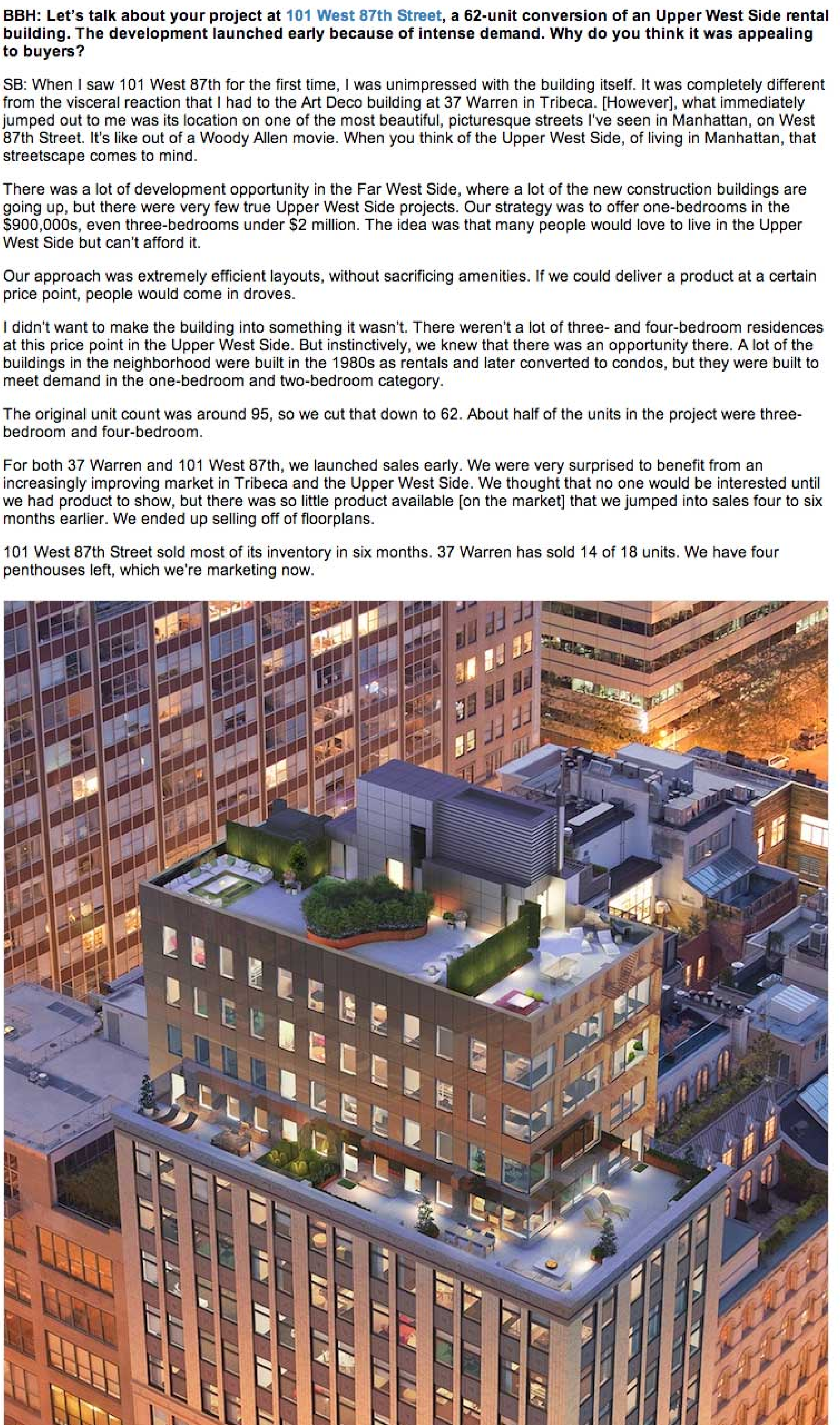
Our approach was extremely efficient layouts, without sacrificing amenities. If we could deliver a product at a certain price point, people would come in droves.

I didn't want to make the building into something it wasn't. There weren't a lot of three- and four-bedroom residences at this price point in the Upper West Side. But instinctively, we knew that there was an opportunity there. A lot of the buildings in the neighborhood were built in the 1980s as rentals and later converted to condos, but they were built to meet demand in the one-bedroom and two-bedroom category.

The original unit count was around 95, so we cut that down to 62. About half of the units in the project were three-bedroom and four-bedroom.

For both 37 Warren and 101 West 87th, we launched sales early. We were very surprised to benefit from an increasingly improving market in Tribeca and the Upper West Side. We thought that no one would be interested until we had product to show, but there was so little product available [on the market] that we jumped into sales four to six months earlier. We ended up selling off of floorplans.

101 West 87th Street sold most of its inventory in six months. 37 Warren has sold 14 of 18 units. We have four penthouses left, which we're marketing now.



Rendering: 37warren.com

BBH: Tell us about the 37 Warren penthouses.

SB: They're new construction, the four floors that were added to the base building. There's two full-floor simplexes on the top two floors, and the two floors below are duplexes. Every penthouse has outdoor space. All three-bedroom-plus apartments range from 2,700 to 2,800 square feet, with pricing from $5.85 million to $7.25 million.

The top four floors are cladded in bronze stainless steel panels. The inspiration was the Dream Hotel, which has stainless steel. We started doing research and we landed on the bronze because it felt right in the context of the base building, which is basically light brown and beige colored brick. The bronze color had this quality that would change in tone as the daylight changed; it would be reflective, especially in the middle of the day, and by the end of the day it would take on a darker, richer color. I love that the top four floors evolve with the day and the seasons. I don't think the renderings do it justice.

BBH: Regarding 101 West 87th, you've told the New York Daily News that you've seen families moving back from the suburbs into Manhattan. Is that a sustainable trend?

SB: Interesting question — certainly, in the case of 101 West 87th Street, there are families that would love to stay in Manhattan if they could afford it. I think people leave Manhattan because they don't have the space and the elements of a home that they need to raise a family. It's a function of what's available in the marketplace. For a long time, three- and four-bedrooms weren't included in development projects. In Tribeca and Upper West Side, you have two submarkets that traditionally appeal to families. You wouldn't see that in the Financial District.

BBH: Any other projects you've got in the pipeline?

SB: In New York, we're still searching for our next condo project — we've got a few irons in the fire. We're close to a deal in a development site in a great location at Soho/Noho. It's a boutique building, but rather than families, it'll be targeted at successful young singles and couples. That's exciting.

Another new initiative is that this year, we're opening our Miami office. Southern Florida is in the midst of another real estate boom; there are new high-rise condo towers announced every week, each one promising the best views, the best amenities.

We're close to a deal to buy a site to develop a building for Miami's young creative class, for people who will actually live in the building. It's a neighborhood that is real, and the opposite of the beach.

A lot of the Miami residents at the high end of the market who are renters are living in buildings that were built in the last 10 years, ultra-luxury second-home buyer and investor buildings. The Miami market, at least at the high end, has become accustomed to a certain level of amenities.

The rents on these units continue to go up, as condo owners start to get pricing power. There's a migration of high-end Miami renters going on right now, from buildings on the beach to buildings downtown, from higher-end buildings downtown to buildings in Biscayne corridor. Anecdotally, I've noticed rents increasing by 25 to 30 percent over the past six months for the luxury condo rental market. There's an opportunity to build for these people, as opposed to developing another condo tower designed to sell out in three days to South American investors.