

Ultra-Luxury Residential

An Interview with Michael Stern,
 Founder, JDS Development Group

EDITORS' NOTE Michael Stern is the founder of JDS Development Group. Stern has a wide range of experience and unique expertise in the fields of design and construction, hands-on project management, results-driven sales and marketing, and real estate-related financing stemming from his experience in development and construction of numerous properties in various capacities in New York and Miami over the past several years.



Michael Stern

COMPANY BRIEF JDS Development Group (jds-developmentgroup.com) is an industry leading real estate development and construction firm specializing in luxury residential, hospitality, and mixed-use projects. Currently, JDS currently has over seven million square feet of property in various stages of development. JDS projects include the record-setting Walker Tower, 626 First Avenue, and 111 West 57th Street.

What did you see in the market that made you feel the timing was right for this company?

When we set out, we wanted to build a design-focused company that pushed the envelope on design, and to build a new model of what an integrated development and construction company could be.

We self-perform all of our construction, unlike some of our peers. More companies have recently started adopting this model recently, but we are at the forefront of it, and we feel strongly that pushing the envelope on design while having the in-house capability and capacity to understand the risks and costs associated with pushing those boundaries leads to a better product and a more efficient model.

Is your focus strictly on the luxury residential side?

We are probably best known for super-luxury residential, which will always be a big part of what we do. However, we do a lot of multifamily rental, and we're building several large rental projects now and have historically. We're also doing quite a bit of hospitality work. Right now, we're building two hotels in New York and another two in Miami.

A lot of our developments are mixed-use that include retail components and commercial components.

But the lion's share of what we do is still ultra-luxury residential and we think we do that best.

Do you think the markets in which you operate have fully come back from the recession and are they more sustainable this time?

The markets have come back to, if not surpassed, the levels we saw pre-2008. There are differences – we have learned quite a bit as an industry from the last cycle. Lenders are a lot more conservative in terms of their leverage points. We're seeing a lot of alternative capital sources come in and fill the gaps between disciplined leverage and what might be required for the development.

We have seen the rise of private equity in real estate in a way that didn't occur in the prior cycle, where we saw high-octane lending more frequently. Today, we're seeing more creative equity structures with more conservative lending parameters, which is healthier and more sustainable.

I also think that from a supply perspective in New York, we're not seeing as many large-scale residential projects that have hundreds of units in them; we're seeing more boutique developments that have 100 or fewer condo units. There just isn't as much of a supply crunch as there was in the last cycle.

In South Florida, the difference this time around is the adoption of the European/South American deposit model. Buyers are putting up to 50 percent down and developers can use the bulk of that money for hard costs. So leverage points again are lower from the lenders because that gap of equity is being filled by buyer deposits. There is a lot more security around having a larger deposit in terms of buyer defaults, so it's healthier. However, the supply metrics in South Florida show there is quite a bit of supply coming, so we will see where that all goes. The excess inventory from the last cycle, which people thought would take forever to absorb, has now all been absorbed. For this next cycle, I don't have a great macro perspective on where it all goes but it has been good so far.

Is it hard to find opportunities today in New York?

It's incredibly hard, but I view this as a positive because there is a very high barrier to entry for creating new product. So New York is always going to inherently be supply-constrained for those reasons.

The opportunities are few and far between – it is an island, after all. There are no real bad neighborhoods in Manhattan anymore. What used to be considered a “no-go” zone is becoming acceptable now.

That high barrier to entry keeps prices relatively high so I don't think it's a terrible thing that it's so difficult to develop at a large scale in New York.

Are you surprised to see how many previously unlivable neighborhoods have turned around?

I'm not surprised these neighborhoods are improving; I think people are surprised at the pace. I'm a huge believer in Brooklyn and we have always been very active there. We're doing two projects in Brooklyn now and we're considering a third. One is very large, a hybrid-rental condo with a retail component, and the other is a boutique condo.

There is a lot of room for growth in Brooklyn. The price of land in Manhattan has escalated to the point where land costs are more than the hard costs to construct your building, which has never been true before and I don't think this is a very healthy metric.

In Brooklyn, this is not the case; there, land prices have escalated but not at the same pace as they have in Manhattan. The difference between today and the last cycle is that Brooklyn and Long Island City, Queens used to be seen as the destination for people who could not afford Manhattan. Today, we're seeing buyers who prefer Brooklyn, willing to pay a premium to be in Brooklyn rather than in a secondary Manhattan market.

In terms of financial risk, how critical is the mixed-use component?

Well-executed, true mixed-use retail creates the most vibrant experience – it activates the street and creates more of a 24/7 lifestyle. This makes the development better. True mixed-use development is the right urban planning module.

We believe in mixed-use development. Very often, we can't do a great mixed-use development on a smaller site in New York; you really need a large-scale site to effectuate that neighborhood game-changer of a project.

We have a couple of these projects in our pipeline, some of which we can't talk about yet, but they excite us because we can engage in true place-making. ●