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Down, But Not Out

Assessing the varying fortunes of the commercial, industrial and residential R.E. sectors



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The arrival of more restaurants, diminishing office space and a pause in some development projects typify downtown New Haven commercial real estate activity in recent months.

Local Realtors see inquiries rising in some sectors, following a notably sluggish fall and early winter.

"Things are slower, but so far I haven't seen any serious drop-offs," says Michael Schaffer, managing partner of New Haven commercial firm C.A.White. "I don't think overall this market has been as badly hit as other areas because we're not as overbuilt. Being a university community keeps this a more stable local economy than other places."

Investment appears to be chugging along.

"Interest rates remain very, very comfortable, and there are still a good number of investors interested in New Haven and looking for office or commercial buildings," says Press/Cuozzo principal Stephen Press.

Tightened credit in the aftermath of the subprime debacle, however, has slowed things down, according to Richard Michaud of the Michaud Co., a New Haven commercial real estate appraisal firm. "Deals are being done but people are still pausing and reassessing," he says, adding the situation may not improve until 2009.

"Regional banks have really come back into vogue," says New Haven Group Inc. principal Steve Inglese. "Priced out of most



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of deals in the last year, now they're the ones with the money. If you have a good deal you can still get it funded, but those borderline deals are not getting done."

Still, a number of major office deals are being derailed by "turmoil in the capital markets," according to Bob Motley, director of Cushman Wakefield's New Haven office.

"We brought a significant [Class A] office building at 157 Church Street to the market last fall and took it to a very select group of buyers," Motley says. "We pulled it from the market earlier this year because people are afraid. They don't know where the bottom is yet, and are worried that if they paid \$160 million today would it be worth \$140 in six months."

Smaller deals are happening with "alternative ways of financing," Motley adds, "by life insurance companies or pension funds, which haven't been hurt as badly as commercial banks."

How the investment climate affects the former Veterans Memorial Coliseum site will become clearer with the prospects and their plans for the city's largest undeveloped parcel. The deadline for submitting RFQ/RFPs is April 22.

Also unclear is what will happen to the block between Chapel and Center Streets ravaged by fire last December 12.

Owner Paul Denz, president of Northside Development Co., is "exploring all options," including the possibility of a sale.

"The property was on the market prior to the fire, and it never came off," he says. "We're also putting together a redevelopment plan that would include a mix of retail office and apartments, and we've submitted a very preliminary plan for redeveloping 91 Church with retail and apartments."

Though 91 Church Street sustained structural damage, the building is in "stable but rough condition," according to Denz, who says its garage has been restored since the fire.

Denz sees "great redevelopment potential" for the entire site. "It is of a size that it would attract large developers, local and regional," he says.

"We're investigating the redevelopment, have talked to some of developers about partnering, and we'd like to see the project more forward," Denz adds.

Other developers, however, are in a holding pattern.

William Christian, whose historic renovation of 804 Chapel Street is nearly completed, says he and his partner Hasni (Jeff) Ghazali have been looking at other properties in the area suitable for historic preservation.

"We'd like to do another one, but we're going to wait until financing loosens up a little bit," Christian says. "The banks just do not seem to be interested in new projects right now."

The two men, who created downtown restaurants Bentara and Central Steakhouse, will start marketing their five new apartments at 804 Chapel Streets this month. One is a studio; the rest are one-bedrooms ranging from 500 to 1,000 square feet. All have hardwood floors and upscale appliances. Christian says monthly rents on most apartments will be \$2,500, with occupancy slated for July.

Terra cotta tiles originally covering the building facade were repaired or replaced during the renovation. Designed by architect R.W. Foote, the three-story structure was built in 1921.

The building, which is directly across from the Shartenberg site, has 1,700 square feet of retail space. Christian says the area needs a grocery store, but he's holding off seeking a tenant until he finds out about the store Shartenberg developers Becker & Becker are bringing in. A grocery is a requisite part of their mixed-use project. "We will try to do something that complements that," Christian says.

The credit crunch has put the brakes on Joel Schiavone's proposed mixed-use development with a dozen luxury condominiums.

The local developer, who remade downtown New Haven in the 1980s, says he has "mothballed" his Quinnipiac River Village project, blaming more stringent lending terms, which have not improved since last fall, when banks were asking him to "phase the project, put up all money in escrow and do all sorts of other things I was not prepared to do."

Schiavone also is holding off on plans to develop property on Howe Street, where he owns a parking lot on the corner of Chapel Street, three buildings and a site where a fourth building was razed.

"The only thing that makes sense downtown is condos," Schiavone says, adding the project will likely be "primarily residential with some retail."

Press/Cuozzo's John Cuozzo sees area condo development proceeding cautiously.

"Based on what's going on with the economy, as well as the oversupply of inventory we had in the fall, there are new projects on the horizon but people are moving much more carefully than 18 to 20 months ago," he says.

In the meantime, Cuozzo expects existing inventory "will be absorbed over time, by people of all different ages choosing

an urban lifestyle."

On April 3, seven condo units in downtown New Haven were ready to close, six had closed since January 1 and 26 were on the market, according to multiple listing service data. Available units included five at John Wareck's Johnson Simons building at Church and Chapel streets, 14 at 122 Court Street (another Wareck project) and two at the Residences of Wooster Square, Guilford real estate developer and appraiser Marc Nadeau's project converting a bank building to a dozen upscale condominiums.

"Higher end [condo] prices are off five to ten percent," Nadeau says.

New Haven Groups' Inglese and others see a market for larger condos catering to the "empty-nester set."

"Clearly there is undeveloped potential for 2,000 square foot to 3,000 square foot units, with adequate parking," Inglese says.

Schiavone agrees, saying such "adult condos" would appeal to a large number of suburbanites in places like Woodbridge, Guilford or Madison, who are thinking that "taking care of their home is a pain in the ass, and wanting to move where they can go out to eat and go to the theater.

"There is no product [for larger units] at the moment," Schiavone says. "I think the real estate market will respond to that need in the next few years."

Downtown retail activity remains robust, with an apparently insatiable appetite for culinary businesses.

An Irish sports bar and chicken wings eatery are among the latest additions.

Lansdowne, an Irish sports bar and pub named for a Belfast rugby stadium, will open in 5,000 square feet of first floor space that was part of the old Chapel Square Mall. The primary entrance will be on Crown Street.

John Keogh of Colliers Dow & Condon, who brokered the deal for the Omni-New Haven Hotel, says owner Kevin Dignan, who has a similar place in South Carolina, "hopes to be open in May."

Laxman Sharma, who owns Darbar in Branford, is developing a restaurant concept that incorporates Indian and other ethnic cuisines in a 3,500-square-foot Temple Street site recently vacated by Diner 21, according to Chris Nicotra, managing member of Olympia Properties.

Buffalo Wild Wings Grill & Bar has leased around 5,800 square feet on the Church Street side of the former mall, and should

be open by late April, says Wareck, who handled the deal for College Street, LLC.

H Pearce Commercial's Richard Guralnick believes Church Street leasing activity "will pick up considerably after Buffalo Wild Wings opens," creating more pedestrian traffic along Church Street from downtown toward Union Station and Yale-New Haven Hospital "where there's now a wasteland."

Guralnick sees this movement as part of a larger trend toward "the reunification of segmented parts of the city.

"Commercial, residential, medical and college districts are being brought back together," Guralnick says, noting the new Yale Cancer Center, garage and medical laboratory office building projects and New Haven Mayor John DeStefano Jr.'s plan to remove the Route 34 Connector and redevelop it into housing, retail and open space.

In recent deals, Yale University Properties has leased around 14,000 square feet for eight retail ventures: Sushi on Chapel (1022 Chapel Street), Woodland Coffee & Tea (1044 Chapel Street), Thali Too (65 Broadway), Moe's Southwest Grill (46 Whitney Avenue), the Devil's Gear Bike Shop II (97 Audubon Street), Traffic (23 Broadway), Denali (13 Broadway) and Trailblazer (296 Elm Street).

Press Cuzzo's Stephen Press describes a "vibrant" downtown retail market with a plethora of restaurant openings and "good amount of absorption" of other retail space.

A recent arrival is Caseus, a tea shop and bistro at 93 Whitney Avenue specializing in selling artisan cheese and serving meals with "extremely high quality ingredients," says owner Jason Sobocinski.

Caseus opened in January 2007 after Sobocinski remodeled the 1,700-square-foot space formerly housing a Japanese restaurant.

New retail prospects include more food-related and service-oriented businesses, according to Kathleen Krowlak, director of business development for the Town Green Special Services District.

"The majority are not restaurants," Krowlak says, adding a wellness center is among them. "Things we'd like to see are kitchen supplies and home furnishings. There's also no place to buy outdoor furniture or barbecue or bistro sets, or mid- or lower-priced undergarments."

In the office arena, leasing remains busy but "leases are taking longer to be signed and being looked at much more by senior management," explains Cushman Wakefield's Motley.

Press/Cuzzo's Press views the office market as "somewhat

stagnant," with a continuing challenge "to bring people in from outside the area versus reshuffling businesses in the area."

Motley says Class A space has been shrinking over the last five to seven years and Yale University is consuming a growing amount of inventory.

"Yale will buy a building where there may be tenants and as these leases come up for renewal they do not renew, and Yale takes the space for their own people," he says.

Non-Yale buildings also are filling with Yale personnel.

"The big news with the office market is Yale is going to lease most of 25 Science Park, which is the largest block of vacant office space in the city, and that will bring the vacancy rate down by two or three points," predicts Colliers Dow & Condon's Keogh. (See story, page 1.)

Winstanley Enterprises, the Massachusetts commercial development firm, purchased 25 Science Park last fall from BioMed Realty Trust.

Such continued Yale encroachment could lead to a potential shortage of office space and rising prices, according to Motley, who says average rates for Class A space in downtown New Haven (\$26 to \$29 per square foot) "are higher now than the rates in downtown Hartford" (\$22 to \$24 per square foot).

Olympia Properties' Nicotra has seen office activity spike in recent weeks.

Marketing firm Bus Design leased 7,000 square feet - the entire upper floor office space - at 760 Chapel Street, the Monsoon building where the Horowitz Brothers did business for decades.

Other Olympia deals include several at 746 Chapel Street, where ENL Marketing Systems is relocating from East Haven to a 2,000-square-foot space. The U.S. Army Corps of Engineers is leasing around 1,500 square feet and Sedgwick & Cedar, which designs and markets an urban clothing line, will occupy 1,000 square feet in the building.

Private equity firm McCullough Capital Management is setting up shop at 111 Whitney Avenue, not far from the forthcoming new Yale School of Management building. Nicotra says the owner is a Yale graduate.