THE EFFECT OF THE EAST-BOUND 7-TRAIN
INTRODUCTION

It’s no secret New York City has become increasingly unaffordable in the years following the Great Recession. Since 2011, the City has experienced a meteoric rise in both multifamily prices (90% increase), and residential rental rates (30% increase) for tenants and landlords alike. To combat this trend, tenants continue to look for the next up-and-coming neighborhoods in which they will be offered similar or better living amenities at a more affordable price. What we have seen is that landlords tend to follow tenants into these “value neighborhoods” effectively creating a recurring cycle of hide and seek.

Nowhere has this occurrence been more evident than in Brooklyn, where the L-train has continually shifted the boundaries of “cool” from Williamsburg to Bushwick and everywhere in between. Since 1998, weekday ridership on the L is up nearly 100%, and an even more astounding 250% at its most popular station, Bedford Avenue. Last year alone rents jumped 19% surrounding Williamsburg’s Lorimer Avenue station and another 9% at the Myrtle/Wyckoff station in Bushwick. However, a similar, albeit less publicized trend has started to play out in Queens and we expect the shift to become more pronounced in the coming years.

This report will delve into this chase for affordability and subsequent development of neighborhoods that line the Queens-bound 7-train. It is obvious that the boundaries of relevancy have extended across the East River from Manhattan to Long Island City, but more recently, the spotlight has continued to move eastward to neighborhoods such as Sunnyside, Woodside, Jackson Heights and beyond. The question is how much farther east tenants are willing to move before looking to other boroughs or even outside of NYC as an alternative.
ABOUT THE 7-TRAIN

The 7-train offers local and express service between Main Street in Flushing, Queens and 34th Street / Hudson Yards in Chelsea, Manhattan. In 2015, Straphangers Campaign ranked the 7-train as number one in its overall ‘MetroCard Rating’ for the second year in a row, leading the system in frequency of service and subway car cleanliness. Furthermore, the 7-line had the most scheduled service, with two-and-a-half minute intervals between trains during the morning rush hour. Amazingly, if the 7-line were its own metro line, it would be the 5th largest by ridership in the United States, ahead of transit systems in major metropolitan cities like the BART in San Francisco, New Jersey’s PATH and Philadelphia’s SEPTA.

The line first began service in 1915 between Grand Central and Vernon Boulevard / Jackson Avenue and over the next 13 years, was extended in piecemeal fashion between Times Square and Flushing / Main Street. Express service started in 1917 and the 7 designation has been assigned to trains since 1948.

The line’s 22nd station, 34 Street / Hudson Yards, was opened in September of 2015 and extends the 7-Line by 1.5 miles. The new station is the MTA’s 469th subway station and the first addition to the subway system since 1989, when a new segment opened on what is today’s F line. Because of future development on the horizon, urban planners predict the new station will be the busiest in the city one day, with 35,000 passengers during a peak hour.

Two long-standing proposals remain on the table for future expansion of the 7-line. An additional Manhattan station is proposed for 41st Street and 10th Avenue with an approximate cost of $1 billion and a second, more ambitious $10 billion proposal would see the NYC subway system cross state lines for the first time and head into New Jersey.

TOP RANKED SUBWAY LINES (STRAPHANGERS CAMPAIGN)

<table>
<thead>
<tr>
<th>Year</th>
<th>7</th>
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<tr>
<td>2013</td>
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<td></td>
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<td>N/A Due to Hurricane Sandy</td>
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<td>2014</td>
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U.S. METRO LINES | AVG. WEEKLY RIDERSHIP

<table>
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<tr>
<th>SYSTEM</th>
<th>TRANSIT AGENCY</th>
<th>AVG. WEEKDAY RIDERSHIP</th>
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<tr>
<td>New York City Subway</td>
<td>New York City Transit Authority</td>
<td>9,144,700</td>
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<td>Washington Metro</td>
<td>Washington Metropolitan Area Transit Authority</td>
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<td>Chicago ‘L’</td>
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<tr>
<td>MBTA Subway (&quot;The T&quot;)</td>
<td>Massachusetts Bay Transportation Authority</td>
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<tr>
<td>7-Line (NYC Subway System)</td>
<td>New York City Transit Authority</td>
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<tr>
<td>Bay Area Rapid Transit (BART)</td>
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<td>SEPTA Subway &amp; High Speed</td>
<td>Southeastern Pennsylvania Transportation Authority</td>
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GROWTH IN RIDERSHIP SINCE 2011 BY NEIGHBORHOOD

<table>
<thead>
<tr>
<th>Neighborhood</th>
<th>Growth</th>
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<tbody>
<tr>
<td>Long Island City</td>
<td>18%</td>
</tr>
<tr>
<td>Sunnyside</td>
<td>1%</td>
</tr>
<tr>
<td>Woodside</td>
<td>2%</td>
</tr>
<tr>
<td>Jackson Heights</td>
<td>3%</td>
</tr>
<tr>
<td>Elmhurst</td>
<td>1%</td>
</tr>
<tr>
<td>Corona</td>
<td>5%</td>
</tr>
<tr>
<td>Flushing</td>
<td>1%</td>
</tr>
</tbody>
</table>

7-LINE VS SYSTEM AVERAGE

TAKE A SEAT

- 59% of passengers with seats at most crowded point during rush hour
- 40%

THE CLEANEST LINE

- 98% of cars with “light or no interior dirtiness” as defined by NYS Transit
- 92%

THE MOST SCHEDULED SERVICE

- 20 scheduled minutes between weekday trains
- 6:13
- 2:30
- 5:00
- 8:24
CLOSING THE VALUE GAP

Unsurprisingly, average rent gradually declines moving east along the 7-line, a connection between a neighborhood’s proximity to Manhattan and its inherent ability to attract robust demand for its rental stock. The one neighborhood that bucks the trend is the eastern book-end of the line, Flushing. With all the public and private investment dollars pouring into both ends of the Queens tracks, it’s hard to imagine the five neighborhoods sandwiched between Long Island City and Flushing not benefiting from a spill-over.

Ridership is up an astounding 42% at the Vernon Blvd/Jackson Avenue station since 2011, contributing to the 18% overall growth in ridership at Long Island City 7-line stations in the same period. All other Queens neighborhoods along the line saw dramatically lower growth during that time, with only 1% to 5% more straphangers visiting their stations. As LIC continues to become more mature (READ: expensive), it’s not a stretch to envision riders beginning to tack on an additional 2 minutes to their commute time in exchange for 20% lower rents in Sunnyside or another 3 minutes to Woodside and so forth.

HOW THE NEIGHBORHOODS LINING THE 7-TRAIN STACK UP:

The graph above illustrates the gradual decline in average 2-bedroom rents moving east along the 7-line. Length of trip time from Midtown East translates to lower prices. In addition to absolute pricing, the vertical bars represent the increasing relative upside in rents when comparing Manhattan and LIC rents with the remaining neighborhoods along the 7-line.

- **Manhattan Value Proposition**
- **Long Island City Value Proposition**
If these neighboring locales experience even half of the ridership growth LIC has seen, rental rates and property values are in for a meaningful bump. Today, the remaining six Queens neighborhoods all offer more than a 100% potential rent growth against average Manhattan rents, and between 27%-48% upside against Long Island City rents. Long Island City’s growing notoriety has seen its rental upside against Manhattan shrink to 68%, still offering plenty of room to run, but far below the remaining Queens 7-line neighborhoods.

As these dynamics unfold in conjunction with the confluence of factors affecting the Brooklyn/Queens relationship to be examined in detail shortly, we see the existing value gap narrowing in the near future.
FLIPPING THE L

In studying the factors that led to the growth in Brooklyn along the L-line we found a thread of commonalities embedded along the 7-line in Queens. The L is a case study in the search for affordability and leads us to believe that the 7-line can become to Queens what the L-train is to Brooklyn. Just as Williamsburg’s growth trickled down to East Williamsburg and then to Bushwick as each proceeding stop became too expensive, Long Island City’s development is primed to flow eastward in a similar manner. In the following sections we will examine the above noted similarities between the two lines, the events that led to the “L-train effect”, and why the time is now for Queens.

BACKGROUND

For decades, Brooklyn was an unthinkable alternative to Manhattan in almost every regard, but the current real estate cycle has seen the City’s largest borough evolve from an affordable alternative to the destination of choice for tenants, landlords and tourists alike.

When we think about Brooklyn today, we envision the hipster millennial working out of a coffee shop, possibly eating something artisanal. While accurate in form, that demographic largely exists along a corridor lining the L-train, from Williamsburg to Bushwick, and not the borough as a whole. The distinction is important as these areas have benefited from outsized price appreciation and borough-changing developments at a very rapid pace during the current boom. More specifically, the most notable growth has taken place northwest of the Myrtle-Wyckoff stop, the 20 minute mark from Union Square. Applying the same time threshold on the 7 would land us at the 69th Street/Roosevelt Avenue station in Woodside.

THE SAME, BUT DIFFERENT

While both the L and 7 cross the east river into their respective waterfront anchor neighborhoods, their exit points from Manhattan are one of the keys to the understanding why the L’s growth has been in overdrive while the 7’s growth hovers in neutral. The L in Manhattan runs through the southern portion of Midtown South, a hotbed of TAMI office tenants that largely draw their employees from creative types historically living in Brooklyn for its affordability and industrial feel. This trend began in earnest in 2010 when Google bought 111 8th Avenue for $1.8 billion and planted their flag in the neighborhood. Competitors and collaborators, seeking proximity to the tech behemoth, followed suit and accelerated Midtown South’s growth into “Silicon Alley.”
Williamsburg and Long Island City were both rezoned in the early 2000’s allowing for the eventual repurposing of many under-utilized and industrial sites that had historically defined these areas. However, rezoning initiatives take years to implement and since most of the efforts to capitalize on the land-use changes began to take shape as the recession hit, their dramatic impact have largely been seen during the 2010-16 real estate cycle. As such, Williamsburg began to fully develop and subsequently price-out existing tenants just as those very tenants were most desired by the new industries developing across the water. Still requiring the L to get to and from work, the creative class slowly began moving eastward and developers followed. With this trend continuing further and further along the L-line for the past 5 years, the value gap that had previously existed between Williamsburg and Bushwick still remains but at a much narrower margin. In 2011, the average Bushwick apartment rented at a 75% discount to a comparable Williamsburg apartment, today that discount is down to 31%.

On the other hand, while the 7 begins with nearly identical fundamentals in its first Queens neighborhood, it doesn’t seem to have any of the other external catalysts that have pushed the L’s growth. The line exits Manhattan through Grand Central, the definition of stodgy Midtown.

The building stock outside of Long Island City doesn’t cater to artists the way East Williamsburg and Bushwick’s grittyness do, and nobody thinks about Queens as “hip”. However, with major events set to occur in the coming years including the impending L-train shutdown, Cornell-Tech’s opening on Roosevelt Island, and the potential Midtown East rezoning, it’s clear that the neighborhoods surrounding the 7 are ready for L-esque growth.
PRICE ADVANTAGE

As prices for Manhattan multifamily buildings approach $1,000/SF today, and Williamsburg closes in on $600/SF, investors seeking to buy bricks at a relatively cheap basis should give a hard look at the neighborhoods along the 7, where prices east of Long Island City are only averaging in the low $200-300/SF range.

Even the borough’s most established neighborhood, Long Island City, whose average sale price clocks in at $350/SF offers investors plenty of room for price appreciation when compared not only with Manhattan, but to its more expensive counterpart in Brooklyn too.

### MULTIFAMILY $/SF

<table>
<thead>
<tr>
<th>Neighborhood</th>
<th>Manhattan</th>
<th>Williamsburg</th>
<th>Long Island City</th>
<th>Woodside</th>
<th>Corona</th>
<th>Flushing</th>
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<tbody>
<tr>
<td>$0</td>
<td>$100k</td>
<td>$200k</td>
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<td>$900k</td>
<td>$1,000k</td>
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### MULTIFAMILY $/UNIT

<table>
<thead>
<tr>
<th>Neighborhood</th>
<th>Manhattan</th>
<th>Williamsburg</th>
<th>Long Island City</th>
<th>Woodside</th>
<th>Corona</th>
<th>Flushing</th>
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</thead>
<tbody>
<tr>
<td>$0</td>
<td>$100k</td>
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<td>$900k</td>
<td>$1,000k</td>
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</table>
Residential fundamentals tell a similar story. For the same price, renters and home-buyers today can get as much as two or three times the space in these Queens neighborhoods than they can at a comparable apartments across the river. While it’s true that many of these areas are only now beginning to develop more viable condominium markets, current rental rates and condo pricing severely trail behind prime Manhattan and Brooklyn neighborhoods.

### CONDO SALES $/SF (NEW CONSTRUCTION)

<table>
<thead>
<tr>
<th></th>
<th>Manhattan</th>
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<th>Long Island City</th>
<th>Woodside</th>
<th>Corona</th>
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<td>$1,500</td>
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### 2-BEDROOM RENT

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<tbody>
<tr>
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<td>$3,000</td>
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<td>$5,000</td>
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End-to-end, forward thinking developers are seizing the opportunity to develop along the 7-train in Queens.

From sky-scraping condominium towers and large scale office buildings to more modest contextual rental buildings, more than 20 new development projects are underway that will surely change the look and feel of many of these neighborhoods. The majority of larger projects are taking place in and around the first and last Queens neighborhoods on the line, Long Island City and Flushing, but there is still plenty of new activity for the remaining neighborhoods to enjoy. A noticeable gap seems to exist in Elmhurst and Corona where an opportunity may lie for developers to begin projects without much competition on the supply side.
### Next Stop: Queens

The Effect of the East-Bound 7-Train

<table>
<thead>
<tr>
<th>Neighborhood</th>
<th>Project Name</th>
<th>Developer(s)</th>
<th>Units</th>
<th>Affordable Units</th>
<th>Floor Area</th>
<th>Stories</th>
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</thead>
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<tr>
<td>Long Island City</td>
<td>Hunters Point South Phase II</td>
<td>TF Cornerstone</td>
<td>3K</td>
<td>60%</td>
<td>600</td>
<td>42</td>
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<tr>
<td>Sunnyside</td>
<td>Queens Boulevard 50-11</td>
<td>Ronald Ji</td>
<td>115</td>
<td></td>
<td>146K</td>
<td>9</td>
</tr>
<tr>
<td>Woodside</td>
<td>Queens Boulevard 68-03</td>
<td>The Universal Church</td>
<td>82</td>
<td></td>
<td>63K</td>
<td>6</td>
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<tr>
<td>Jackson Heights</td>
<td>Roosevelt Avenue 71-17</td>
<td>Weber Management</td>
<td>122</td>
<td></td>
<td>29630</td>
<td></td>
</tr>
<tr>
<td>Flushing</td>
<td>Flushing Commons 59-02</td>
<td>F&amp;T Group, Rockefeller Group &amp; AECOM Capital</td>
<td>1.8M</td>
<td></td>
<td>51B</td>
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<tr>
<td>Honey Point South</td>
<td>39-01 Queens Boulevard</td>
<td>Curbed Urban Partners &amp; Platinum Realty Associates</td>
<td>144</td>
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<td>358K</td>
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<tr>
<td>Elmhurst</td>
<td>Queens Boulevard 17-02</td>
<td>Tim Chan</td>
<td>122</td>
<td></td>
<td>29-37</td>
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</tbody>
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**LONG ISLAND CITY**

15. **Hunters Point South Phase II**
   - TF Cornerstone
   - 3K units
   - 60% affordable units
   - 600 seat school

16. **16-3 Gotham Center**
   - Tishman Speyer
   - 1.1M SF
   - 2 buildings
   - 29630 stories

17. **29-26 Northern Boulevard**
   - Simon Baron Development
   - 500K SF
   - 467 units
   - 42 stories

**SUNNYSIDE**

18. **50-11 Queens Boulevard**
   - Ronald Ji
   - 60 units
   - 8 stories
   - Proposed

**WOODSIDE**

19. **68-03 Roosevelt Avenue**
   - The Universal Church
   - 63K SF
   - 6 stories
   - Religious

20. **Queens Boulevard 71-17**
    - Weber Management
    - 122K SF
    - 139 units
    - 15 stories

**JACKSON HEIGHTS**

21. **71-17 Roosevelt Avenue**
    - Weber Management
    - 122K SF
    - 139 units
    - 15 stories

22. **89-02 Roosevelt Avenue**
    - NYC School Construction Authority
    - 96K SF
    - 5 stories
    - Education

**FLUSHING**

23. **Flushing Commons**
    - F&T Group, Rockefeller Group & AECOM Capital
    - 1.8M SF
    - 5 buildings
    - $1B cost

24. **133-55 41st Avenue**
    - One Flushing
    - 133-55 SF
    - 227K units
    - 10 stories

25. **131-01 39th Avenue**
    - Triple Star Realty
    - 362K SF
    - 360 residential units
    - 200 room hotel

26. **133-27 39th Avenue**
    - F&T Group
    - 190K SF
    - 192 units
    - 13 stories

27. **37-12 Prince Street**
    - F&T Group
    - 70K SF
    - 14 stories
    - Office
For decades the city, state and federal governments have had a significant impact all across the 7-line. Through proposed track extensions, both in NYC and neighboring NJ, rezonings large and small, and neighborhood-shaping RFPs, there seems to be an endless pipeline of major initiatives that have and will continue to affect this region.

While some projects have already been completed, such as the new 7-line station at Hudson Yards, and others are already underway such as the Cornell-Tech campus on Roosevelt Island and the East Side Access Project that will bring the LIRR to Grand Central, many other major projects still hang in the balance. These include the proposed Midtown East Rezoning, the Willets Point Development in Flushing and any future plans at Sunnyside Yards, a site that has seen proposals come and go since at least the 1960s. While some of these projects will take years to hash out, and even more time to complete, their progress is worth monitoring as initiatives of this scale have the power to tip transitioning neighborhoods.
Next Stop: Queens
The Effect of the East-Bound 7-Train
CONCLUSION

WHY NOW?

Just as Brooklyn became a more affordable option to Manhattan before blooming into a destination with its own merits, we see Queens becoming that same type of affordable haven to Brooklyn. With the impending shutdown of the L-train and the oncoming development of the Cornell Tech Campus on Roosevelt Island, we see the time waning for renters and developers looking to take advantage of the relative discount in prices in Queens, specifically along the most convenient path to Manhattan, the 7-train.

In January of 2016, the city announced a nearly $1 billion project to repair damage from Hurricane Sandy to the L-train tunnels connecting Brooklyn and Manhattan. With work beginning in 2019, service will shut down completely for 18 months. Trains will not run between 8th Avenue and the Bedford Avenue stop in Brooklyn, leaving the 225,000 daily cross-borough L-train riders searching for alternatives. To soften the blow, the city is considering the addition of extra subway service on nearby lines and a new bus and ferry service. Therefore with commute times set to increase dramatically, or not exist at all, we see current and potential Brooklynnites no longer willing to pay a premium to live along the L. Instead, they may head to Queens in search of more bang for their buck and a more reliable commute to work.

In 2011, Cornell & Technion won Mayor Bloomberg’s Applied Sciences NYC Initiative, paving the way for a $2 billion, applied science and engineering campus on Roosevelt Island. When fully built in 2043, the campus will include 2 million square feet on 12 acres serving an academic community of nearly 2,500. With groundbreaking in 2015, and the first phase of the project set to open in 2017, students will soon begin filling the Island once only remembered for a prison, a lunatic asylum, and a smallpox hospital. Akin to the major effect Columbia and NYU’s expansions have had on their respective neighborhoods, we see graduating Cornell-Tech students and those seeking off-campus housing heading east, given the Island’s proximity to Long Island City and Queens more generally, ultimately boosting demand for housing in those areas. Interestingly, in another striking similarity, since 2013, the university has temporarily been operating out of the very same Google building on 8th Avenue that seemed to ignite the L-train movement.

With troubles ahead for the L-train, thousands of potential new residents heading east from Roosevelt Island, and the proposed Midtown East rezoning set to affect Manhattan stations along the line, 2017-2019 appear to be ripe for growth for the neighborhoods along the 7.

Should the spigot open as we foresee, the residential neighborhoods east of Long Island City do offer a fundamental base that was not available to their L-train brethren. As these Queens neighborhoods have long been residential in nature, fundamental amenities such as schools, supermarkets, and entertainment will not have to be built concurrently, or even post housing development since they already exist. With the infrastructure already in place, these neighborhoods are ready to absorb the incoming migration of additional residents without any delays.
The information contained herein has either been given to us by the owner of the property or obtained from sources that we deem reliable. We have no reason to doubt its accuracy but we do not guarantee the accuracy of any information provided herein. As an example, all zoning information, buildable footage estimates and indicated uses must be independently verified. Vacancy factors used herein are an arbitrary percentage used only as an example, and does not necessarily relate to actual vacancy, if any. The value of this prospective investment is dependent upon these estimates and assumptions made above, as well as the investment income, the tax bracket, and other factors which your tax advisor and/or legal counsel should evaluate. The prospective buyer should carefully verify each item of income, and all other information contained herein.