

## REAL ESTATE

### The Divide Between Manhattan, Other Boroughs



By **MICHAEL STOLER**  
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With "stagflation" the buzzword of the month, the price of oil rising past \$100, an increase in the consumer price index, turbulence in the stock and capital markets, and general uncertainty in the minds of investors, the fate of New York City's residential condominium market — the ever present symbol of the latest real estate boom — is cloudy.

As thousands of condominium units are being developed across the five boroughs, members of the banking community, brokers, and developers have divergent views, but many see a growing divide between the luxury market in Manhattan and some of the more speculative projects in fringe areas.

"The state of the condominium market in the New York area is a story of two different markets: the Manhattan prime and everywhere else," the president of SJP Residential, Allen Goldman, said. "The market outside the prime area ain't great, and it's not going to get better overnight."

"The market has deteriorated more in velocity and somewhat less in price outside the prime Manhattan market due to tougher mortgage standards and a weakening economy," Mr. Goldman said. "Novice developers in the outer boroughs will be forced to cut prices to move product in an effort to hang on. For the others who are better capitalized, they will convert unsold condominiums to rentals or simply hold unsold units to rent until the market turns around, similar to what happened in the early 1990s."

He added: "Short of an economic calamity, I believe this twotiered housing market in the New York area will continue for the next 18 to 24 months. I then expect the psychology of the typical middle-market buyer outside the prime area to once again turn positive as the economy strengthens. It always does; it's just a matter of time."

The president of W Financial, Gregg Winter, said: "Mediocre projects — uninspired designs thrown up in ho-hum locations — are now justifiably suffering and selling at a pace akin to Chinese water torture. For years these projects would somehow manage to get financed, built, and slide through the system buoyed by a rising tide that caused amateur developers to believe they actually knew what they were doing. Winter 2008 is indeed a time of reckoning; however, my current experience is that the strong, well-designed, and well-located projects are still selling. We are now leaving the no-brainer zone, where most projects would fly off the shelves regardless of their actual merit, powered by the kind of easily available loans that led us right into the subprime debacle." A principal of Troutbrook Company, Marc Freud, said: "The past five years has been the era of ever increasing prices of condominiums in downtown Brooklyn, DUMBO, and many parts of Williamsburg. That era has now ended, with the for-sale condos in the 750- to 1,000-

square-foot mark stalled, and pricing decreasing by as much as 15% to 20%. The overamenitizing of certain developments in these areas has done little to compel the buyer to today to sign a purchase contract."

In certain projects, developers are contemplating price reductions or conversion to rental. One senior development director told me, "Sales have dried up in Long Island City even for products in the best locations. Since October, we have only sold five units."

Another developer in Williamsburg said sales have fallen by at least 50% in one project, and he is converting his other 12-story development to rentals from condominium. Projects in downtown Brooklyn and Fort Greene are having difficulty attracting purchasers even at prices as low as \$550 a square foot.

**Ian Reisner, one of the developers of a 108-unit condominium project at West 47th Street and Twelfth Avenue in Hell's Kitchen, the 505, is bullish on the market. "Our project is literally on fire, selling over 90 of the 108 units in the last 12 weeks. We sold seven units in the last 10 days and five of them for over \$1 million — our most expensive unit. Our buyers are foreigners, out-of-towners looking for a near Broadway pied à terre, or single working women looking to live near their Midtown offices or gays that love the new Chelsea. They actually call our neighborhood 'Helsea' or 'Chelsea Heights.'"**

One prominent industry leader who requested anonymity said: "Condos in general are clearly not selling at the pace they were a year ago. There has been massive overbuilding in the entire borough of Brooklyn. It is like the Wild West, and if you don't control growth, then at some point it's going to get out of hand."

"Developers have been offering incentives and have been negotiating more," the source added. "Buyers are taking longer to make decisions to purchase for a couple of reasons: (a) They are nervous about purchasing when they may believe if they wait they could buy the same or similar product for less later, and there is a lot of product in the market to look at; and (b) there is no fear that if they don't buy the unit today, the guy in line behind them will buy it, because in general there are no lines anymore."

Robert Levine, the president of RAL Companies, which is developing One Brooklyn Bridge, said: "Brooklyn — it's a big borough and very diversified. We spent years looking at properties in Brooklyn and evaluating the basic principles and opted to pass on frontier communities. We were not interested in Williamsburg, as the land values peaked, and for all of the basic concerns of public transportation and support services that enhance or make up a residential neighborhood. Instead we put all our eggs in one big basket with the conversion of 360 Furman St."

"Our sales have been consistent and strong," Mr. Levine said. "January and February have been some of our strongest months in the past six months of sales; we are sold out of our first phase and are just introducing the second phase."

He added: "All this being said, it's a tough market. Buyers are able to compare and choose without a gun to their heads, and quality of construction and experience of the developer is finally a consideration and will certainly impact decisions by buyers. Intrinsic values and basic principles of good real estate will once again prevail in the decision-making process." In September 2006, Taconic Investment Partners and an international real estate investment fund acquired nearly 1,000 unsold residential condominium units at MeadowWood at Gateway, a housing complex in the East New York section of Brooklyn. The joint venture has spent close to \$40 million renovating the property and began selling the units last fall.

"Sales at MeadowWood are going well; in fact, the pace of activity has increased as mortgage rates have come down," a principal and co-founder of Taconic, Charles Bendit, said, "We are targeting middle-income buyers with prices for apartments ranging from \$100,000 to \$350,000. This is truly work force housing. Most buyers are in the family income strata of \$30,000 to \$125,000. The price range per square foot ranges from \$260 to \$325 per square foot. What we found is that in most instances, the cost of owning, after tax, is less than the cost of renting."

Earlier this month, the residential sales office of Sky View Parc opened in the Flushing Meadows section of Queens. The 3.3 million-square-foot mixed-use center, which is being built at College Point Boulevard and Roosevelt Avenue, will contain a mix of residential units and national retailers, as well as an elevated 4-acre park, tennis courts, and an outdoor pool.

A principal at Muss Development, Jason Muss, the developer of Sky View Parc, said, "The project is a runaway success, with 40 sales in the 10 days since we opened. I believe that if you offer quality product in a constrained submarket for reasonable prices, you will do well."

Still, members of the banking and finance community are concerned about the state of the condominium marketplace.

"In general, sales velocity is slowing in the New York area," the head of American real estate at the Bank of Scotland, John Gunther-Mohr, said. "However, the range of sales activity is getting broader, with some projects seeing no sales and little traffic, while others continue to generate sales in the range of five to ten units per month."

"The high-end, top luxury products in top locations with little direct competition are faring best, with projects selling in the \$1,200 to \$1,600 per square foot that compete against similar projects in Manhattan showing slower sales. That being said, this data applies to projects under construction and there still is not much completed unsold inventory available relative to size of the residential market in New York," Mr. Gunther-Mohr said. "The additions to new condominium supply are clearly slowing as projects are being postponed or reprogrammed as rental units. So while the next year or two will be tougher, I see a reasonable supply and demand balance over the long term."

The general consensus among senior banking executives and real estate fund executives is that too many condominium developments are in the pipeline. If a banker is contemplating providing financing for an excellent planned project, the rules of the game have changed. In the past, a banker would commit to providing 100% of the required funding for the transaction. Today, in order to finance a new condominium development, bankers and mortgage brokers are working hand in hand to create a group of lenders to participate in the financing, and the syndicate of lenders is required at the closing of the loan.

An associate at the Ackman-Ziff Real Estate Group, Eli Weiss, said: "While the Manhattan condo market fundamentals are still strong, the rules that apply to the Manhattan market are very different to the other four boroughs and surrounding suburbs. The current quality of life that Manhattan residents are enjoying right now creates a worldwide demand from students all the way up to senior citizens to live and own in Manhattan."

He added: "The non-Manhattan sales are the real litmus test as to the health of the market. With no significant interest from foreign or pied à terre buyers, and competition from single-family homes, non-Manhattan condo projects will face real pressures, given the macro-economy and the recent, more stringent home loan underwriting guidelines."

A partner at Herrick, Feinstein, Douglas Heller, said: "Money is not flowing as freely as it did before. Underwriting standards are more strict than they used to be. The banks are being more responsible than they were previously, both in considering loans from developers and also end loans from potential purchasers."

The director of commercial real estate lending at the New York City division of M&T Bank, Gino Martocci, said, "Although the level of urgency from potential buyers is much less than during 2005 and 2006, we continue to see a good pace of sales in the developments we are involved or familiar with."

He added: "However, we are very concerned about the ongoing credit dislocations and the impact on Wall Street and the New York City economy. 2008 appears to be much more uncertain as it relates to Wall Street employment and prospective bonuses. We have seen credit-tightening rolling from one product to another unrelentingly, as investors seek greater safety and liquidity."

The condition of balance sheets for many of the large banks and investment banks remain tenuous. All of this must provide a cautionary backdrop when predicting ongoing demand for condominiums and the New York City economy as a whole."

Even though dark clouds are overhead, I concur with Gregg Winter when he says: "Once the logjam of mediocre projects eventually clears through the system, 'condominium' will cease to be a dirty word. And with the barriers of entry raised higher than any time in recent memory, New York's strong and talented developers will meet the challenge and continue to innovate and draw buyers to their projects."

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