Manhattan Bargain: Condos for Less Than $3 Million

There's a boom in new apartments for people who aren't millionaires but still have to spend like one.

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2:09 AM PST
February 4, 2015

When Related Cos. began selling condominiums at one of its former rental buildings last month, 50 people showed up in the first two days for an only-in-Manhattan bargain: almost all the homes cost less than $3 million.

Carnegie Park, a 1980s-era rental property, was renovated as a condo building where one-bedroom apartments with 690 square feet (64 square meters) start at $765,000. The average price for all units is about $1,300 per square foot -- roughly 30 percent less than the average for a newly built Manhattan condo sold in the fourth quarter, according to appraiser Miller Samuel Inc.

"We are flooded with requests from buyers to come look at the property," said Benjamin Joseph, the Related senior vice president who oversaw the conversion of 368 rental homes to 325 condos at 94th Street and Third Avenue. "We're so busy, our sales agents can't even schedule them all."

After years of building ultra-luxury condo towers aimed at setting price records, Manhattan developers are taking a detour to satisfy demand from people who can't afford the highest-end offerings. About 3,845 non-luxury units under development will be listed for sale in the borough this year, more than double the number available in 2014 and the most in data going back to 2009, according to brokerage Corcoran Sunshine Marketing Group.

The firm's definition of non-luxury for Manhattan is less than $2,300 a square foot -- still far from affordable in comparison with the rest of America, where new single-family homes sell for an average of about $94 a square foot, according to the most recent Census Bureau data (PDF). But for New York, development at that level is opening up opportunities to more buyers in an area starved of new housing for people who aren't multimillionaires.

"This is an important segment of the market that has not had their needs met for a long time," said Pamela Liebman, president and chief executive officer of the Corcoran Group, the parent of new-development arm Corcoran Sunshine. Developers who capitalize on this "are going to do extremely well," she said.

Rental Conversions

Manhattan's newest non-luxury offerings are primarily in older rental properties that have been renovated, freeing developers from having to recoup the costs of acquiring vacant land and building from the ground up, said Nancy Packes, a marketing and design consultant to New York City developers. Those surging expenses are part of the reason builders have been compelled to focus on ultra-high-end sales.

Conversions are now especially appealing to landlords of the borough's older apartments, as competition from newly built rentals in Queens and Brooklyn limits how much further Manhattan rents climb, Packes said.

Apartment buildings constructed decades ago with tax breaks from the city are seeing those incentives expire just as rents are cooling, said Andy Gerringer, managing director at the Marketing Directors, a new-development brokerage. That makes condo sales more appealing and possibly more profitable to landlords, he said.

Tax Burnoff

“When those incentives burn off over the next couple of years, their taxes will be going up 30 percent,” Gerringer said. “The owners of those rentals can’t really jack up rents by 30 percent to cover the cost. So what you’ll see is a lot of conversions come out on the market.”

Developer Ben Shaoul of Magnum Real Estate Group, who acquired two apartment towers from Post Properties Inc. last year, has filed plans to convert the 337 rental units into condos once their tax benefits expire in June.

Prices at the Post Toscana, on the Upper East Side, will be from $600,000 to $9 million, Shaoul said this week. At the Post Luminaria in Gramercy, prices will span from $900,000 to $5 million. Apartment sizes at both will range from studios to five-bedrooms.

‘Approachable Luxury’

Manhattan developers even without expiring tax incentives are seizing the chance to covert rentals to condos. Ziel Feldman, president of luxury developer HFZ Capital Group, acquired four rental towers in 2013 for $610 million and has plans to convert all of them into “approachable luxury” condos.

The newest of those properties, a 36-year-old building now known as Fifty Third and Eighth, will begin sales next week after a renovation that updated the lobby and fitness centers. It will add amenities such as a dog park and children’s playroom, pending approval from the New York state attorney general’s office, Carolyn Sebba, a broker from Douglas Elliman Real Estate, said on a tour of the site.

The 262 condos at Fifty Third and Eighth were kept mostly at the same size they were as rentals, even as the units got modern upgrades such as lacquer and stainless-steel cabinetry in the kitchens, marble floors in the bathrooms and a temperature control system that can be operated remotely through a smartphone, Sebba said.

‘Best Deal’

Prices start at $1.14 million for a one-bedroom of about 667 square feet. The average price per square foot of all apartments is about $1,700, Sebba said.

The largest apartments are three-bedroom units of about 1,040 square feet, the most expensive of which is being marketed for $2.08 million on the top floor, according to a price list filed with the attorney general's office. The building is about six blocks from Extell Development Co.'s luxury One57 tower, where a 1,021-square foot one-bedroom on the 40th floor was listed for sale at $3.45 million, and a penthouse sold for $100.5 million.

"We believe we're going to be the best deal in town," Feldman said. "You're within spitting distance of some of the most expensive real estate in the world, but instead of paying $90 million, you're paying $2 million."

A smaller conversion one block away, at 432 West 52nd St., has had contracts signed for 17 of its 55 units since sales began in October, according to Victor Lee of JVL Property Group. JVL, with partners Okada Acquisitions and West Coast developer Zion Enterprises, sought to appeal to younger buyers priced out of most Manhattan neighborhoods, when they decided to transform the seven-story rental into ownership units, Lee said.

More Efficient

Apartments in the building, once a dormitory affiliated with a nearby hospital, are smaller than typical condos. One-bedroom spaces start at about 600 square feet and two-bedrooms at 920 square feet. Prices range from $600,000 for a 436-square-foot studio to $2.4 million for a duplex garden home.

"You're not paying as much because the spaces are a little bit more efficient than you would see in normal luxury condos," Lee said.

These relatively lower-cost offerings are still a long way from easing the shortage of affordable housing in Manhattan, where the median apartment price in the fourth quarter was $980,000, according to Douglas Elliman and Miller Samuel. Prices will still be out of reach for most residents, said Jed Kolko, chief economist at property-listings website Trulia Inc.

To afford a $600,000 condo, buyers would need to make $160,000 a year, more than twice Manhattan's median income of $72,000, assuming they'd have a 20 percent down payment, about $1,000 in monthly condo fees and a mortgage payment that's no more than one-third of monthly income, he said.

Beyond Reach

"There are very few homes for sale in Manhattan that are within reach of the middle-class New Yorker," Kolko said. "Affordability is likely to worsen as rates rise and prices outpace incomes."

In his State of the City speech Tuesday, New York City Mayor Bill de Blasio proposed a new residential zoning plan requiring developers to include affordable housing. The mayor set a goal of saving or creating 200,000 affordable units by 2025.

For the current condo conversions, prices can only go so high because the targeted buyers are reliant on mortgages, Packes said.

"That user group has a certain affordability limit -- it's called finance, they have to take a mortgage" Packes said. "The group of buyers that these offerings are targeted to, don't have the kind of flexibility or wealth to simply pay more for the nicer things."

Mortgage Contingencies

At Carnegie Park, where 60 units went into contract after less than a month of sales, Related has increased prices on some apartments, said Sherry Tobak, a senior vice president who is overseeing condo sales at the building. The developer is also offering a mortgage contingency, meaning buyers can back out of a contract if they don't get financing. Among the first 20 deals to go into contract, only three buyers asked for it, Tobak said.

Related overhauled the amenities and public spaces when it converted the building. Robert A.M. Stern, dean of Yale University's School of Architecture, was hired to redo the lobby with marble floors and a silver-leaf domed ceiling, procure custom tiles for the 50-foot (15-meter) pool, and design a children's playroom and entertainment lounge that opens to a half-acre private park.

Agnes Lee was among the first buyers at Carnegie Park, signing a contract for a studio apartment the week sales began. She agreed to pay $600,000 for a 514-square-foot unit, capping a two-year search for a home.

With a budget of about half a million dollars, Lee, an employee at an asset-management firm, found options mainly in co-operative buildings, which tend to be lower-priced in part because their boards maintain restrictive rules on who may purchase and how those deals may be financed. Lee was seeking flexibility, and condos were mostly out of her price range, she said.

On a suggestion from her broker, she sought to tour an apartment at Carnegie Park. She made her decision immediately.

"We didn't even leave the building," Lee said. "If the price is right for you, you just have to jump on it."

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