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At Dizzying Heights, Prices of Luxury Apartments May Have Found Ceiling

By CHARLES V. BAGLI MARCH 15, 2016

It's a question of supply and demand.

On a seven-block stretch of 57th Street and nearby, there are at least 300 apartments in seven buildings priced at a billionaire-friendly $5,000 a square foot either for sale or scheduled to go on the market in the next 24 months.

But despite a record $100 million sale of a penthouse last year, the volume of sales at that level topped out two years ago, at 55 transactions. In 2015, there were just 47 sales, according to CityRealty, a real estate data and listings website. And with China's economy markedly slowed and prices for oil and other commodities falling, brokers and developers think the number could be even lower this year.

That imbalance is one of a growing number of signs that New York may be facing a luxury glut. Prices for land, apartments, Madison Avenue storefronts and hotel rooms, all of which have skyrocketed in recent years, may have finally gotten too high.

“I wouldn’t take a bet on doing a high-end condo building and trying to sell apartments at $5,000 per square foot,” said K. Thomas Elghanayan, chairman of TF Cornerstone, a developer specializing in rental buildings in Manhattan and Queens.

But the market Cornerstone focuses on has not felt the pinch. “So far, the rental market’s fine,” Mr. Elghanayan said. “We’re still running a 1 percent vacancy rate in our buildings, though we haven’t been able to buy land or put together any new projects.”

A high-end slowdown is not necessarily a bad thing, city officials say. They argue that a pause in the escalation of real estate prices could be good for New York, where land prices have made it prohibitive to build new rental apartments and offices, small businesses have been priced out of the market and 30 percent of apartment renters are spending more than half their income on housing and utilities.

“There’s clearly some frothiness in the high-end residential market,” said Alicia Glen, the deputy mayor for housing and economic development. “In some respects it’s not the worst news for us. Land prices have gotten so out of control that it had a substantial impact on residential developers in making rental housing work.”

Which is not to say the supply of the world’s billionaires who want to invest in a New York apartment with lofty views has been exhausted. Nancy Packes, a high-end real estate consultant, contends that is not the case.

Billionaires, Ms. Packes said, shrewdly anticipated the worldwide economic downturn and left the market in 2014 expecting that the slowdown in China and the sharp drop in the price of oil and other commodities would affect real estate.

“We did not run out of wealthy people,” she said.

That may be. But there are also plenty of high-priced apartments going begging.

Ever since the penthouses at two new 57th Street towers — 432 Park Avenue, between 56th and 57th Streets, and One57, near Seventh Avenue — went under contract for about $100 million about three years ago, developers, brokers and the real-estate news media have been preoccupied by the highest end of the market.

But despite the inordinate amount of attention that the superluxury towers of Billionaires' Row have garnered, apartments selling in the $5,000-a-square-foot range represented less than 1 percent of condo sales in New York, according to CityRealty.

Nevertheless, developers rushed to build roughly three dozen towers aimed at the Arab princes, Russian plutocrats and other wealthy foreign clients who, brokers say, account for about three-quarters of the highest-end sales. The potential profits were breathtaking: The cost of designing, building and marketing 432 Park, according to the developer Harry Macklowe, was about $1.3 billion, but the projected sellout is $3.1 billion.

But the perils of focusing on the superrich are becoming more apparent. This year, a lender moved to foreclose on a proposed luxury tower near Sutton Place. Some developers have cut prices while others are divvying up 8,000-square-foot units into smaller apartments.

And on Central Park South, the developer Steven Witkoff recently mothballed his plan to convert the Park Lane hotel to condominiums or demolish the building so he can build a luxury tower.

The pursuit of oversize profits has also had an effect on high-end retail shops along Madison and Fifth Avenues and in SoHo in the form of empty stores. Coach and Bulgari recently announced deals for record rents on Fifth Avenue. But many retailers are refusing to go along as landlords boosted rents to $2,000 a square foot, a number many retailers found prohibitive, brokers said.

"Retailers are stepping back and saying, 'We can't live with those kind of occupancy costs and still make money,'" Robert K. Futterman, a retail broker, said. "So you're seeing rents on Madison Avenue come down."

"There are crazy numbers all over the place," added another veteran broker, C. Bradley Mendelson of Cushman & Wakefield. But "a lot of the luxury purchasers aren't there anymore," Mr. Mendelson added. "The middle market is doing very well."

Indeed, across many sectors of the city's economy, things remain strong, although the city may be taking a pause to digest all the new construction that has gone on in recent years.

"The hallmark of the city's economy in recent years has been the sustained, diversified job growth, strong enough to keep drawing people here and to lift wages across the board," said James A. Parrott, chief economist of the Fiscal Policy Institute, a union-backed research group. "Barring a global slowdown, that diversified growth will continue."

There are more people living in New York City than ever before, 8.5 million, and the population continues to swell. There are a record number of jobs and with the growth in advertising, the media and tech sectors, the economy is less dependent on Wall Street.

Finally, a record-setting 58.3 million tourists poured into New York last year. Occupancy at the city's hotels, however, was flat, at about 85 percent in 2015. Average room rates, instead of continuing their upward trajectory, fell by 1.7 percent, while the rest of the country went up.

The city's soaring supply of rooms for visitors may have something to do with that, as the construction of new hotels outpaced even that of superluxury towers. New York added 20,000 hotel rooms in the last five years, according to CBRE Hotels, a market data firm, bringing the total to 117,000 rooms, and there are another 13,000 under construction. Airbnb, a competitor, has added another 20,000 rooms for visitors to choose from.

“People are still coming to New York City,” said Mark Van Stekelenburg, managing director of CBRE Hotels valuation and advisory services in New York. “They’re just more sensitive to rates. We’ve added 100 new hotels in the past five years, plus Airbnb, giving people a lot of options.”