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Real Estate

The Take-It-on-Faith Condo



Because new construction is scarce, buyers are snapping up condos still at the floor-plan stage.

By MICHELLE HIGGINS

RISING demand and a scarcity of new apartments are creating something of a rush on new luxury condominiums in choice New York neighborhoods, with buyers increasingly signing contracts for spaces even before they are built.

Last month sales opened for 200 East 79th Street, a Skyline Developers project. The building is still going up, but already contracts have been signed for 25 of the 39 units. In late August the sales team for Sackett Union, 11 town houses and 32 condos being developed by Alchemy Properties in Carroll Gardens, Brooklyn, began calling prospective buyers who had asked to be notified when sales started. By the end of September, half the condos were in contract at the asking price, as well as one town house. As of last week, 24 of the condos had sold, as well as another town house.

All of those properties were snapped up in the construction phase. Most buyers had little more than a floor plan, some artists' renderings and perhaps a model kitchen and bathroom on which to base one of the most important purchases of their lives.

"We were inundated," said Kenneth S. Horn, Alchemy's president. "There is such a dearth of new properties that if you deliver a nice product with nice finishes in a good area, they're going to sell."

Housing inventory has been dropping across the country, with available listings in September down more than 30 and 40 percent respectively from a year ago in markets like Miami and San Francisco, according to Zillow.com. As a result, some condos in neighborhoods like Brickell in Miami and Mission Bay in San Francisco have been experiencing robust sales from floor plans as buildings go up.

In New York City, housing inventory was down about 25 percent in September from a year earlier, according to Zillow. But a combination of tight lending and high land costs means most of the buildings entering the market are relatively small — thereby further intensifying the competition for new apartments. Of the 31 buildings that have opened or are projected to start sales by the end of the year, just one has more than 100 units, according to data compiled by the Corcoran Sunshine Marketing Group.

In all, by the end of 2012, 1,249 new apartments are expected in the Manhattan market. That's up from just 277 new units last year, which had the second-lowest number of new units over the past decade (in 2009, more apartments were taken off the market than were listed). But it's still far from a peak of 8,052 in 2007.

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PHOTOGRAPHS BY JENNIFER S. ALTMAN FOR THE NEW YORK TIMES

64% Sold

200 East 79th Street
39 apartments by Skyline Developers

Projected Opening:

Summer 2013



RENDERING BY SEVENTH ART

50% Sold

Warren Lofts
37 Warren Street
18 apartments by Bazbaz Development

Projected Opening:

Spring 2013



RENDERING BY ARCHPARTNERS

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After the 2008 financial collapse, these so-called presales dried up as buyers shied away from anything that wasn't finished, and concerns grew that developers wouldn't be able to deliver on their promises. "Buyers became resistant to buying in a half-completed development," said Beth Fisher, a senior managing director of Corcoran Sunshine. "They were risk-averse."

It wasn't until the end of 2011, Ms. Fisher said, that off-site showrooms re-emerged and buying off the plan picked up again. Perhaps the most notable example of this phenomenon is One57, the high-profile tower that has yet to be completed across from Carnegie Hall. More than 60 percent of its 92 luxury apartments have sold — including a penthouse that went into contract for more than \$90 million — since sales began about a year ago.

"It's really a supply-and-demand dynamic," Ms. Fisher said. "If a market has the choice, it always prefers the completed product."

Buying in early can have significant upside in a rising market. Prices at Chelsea Green, a nearly sold-out 51-unit condominium from Alfa Development going up at 151 West 21st Street, were raised four times since sales began in May. Now the two remaining two-bedroom two-baths are \$2.7 million and \$2.8 million, up \$200,000 from their initial asking prices.

When sales started last September at 205 Water Street, a 65-unit Toll Brothers project in the Dumbo section of Brooklyn, apartments were priced around \$825 a square foot. Over the course of a year, rates were raised more than 10 times; they ended up at an average of \$875 a square foot.

And with some sales offices opening to long lists of potential buyers, there is even more pressure to get in early. In Brooklyn, 20 Henry Street, a 38-unit condo, started selling in February to 800 prospective buyers who had put their names on a waiting list. More than 85 percent of the building has since sold.

But there are also plenty of potential pitfalls when buying essentially sight unseen, including construction delays, rising interest rates, a smaller apartment than advertised and a different view than you had imagined when looking at the blueprints. Following are some things to consider when buying off the floor plan:

THE FINE PRINT Don't be intimidated by the offering plan. That big, bulky book, typically several hundred pages long, spells out the terms and conditions of the sale. Although many buyers rely on their lawyer (preferably one familiar with new construction) to study the plan, it is useful to look closely at a few sections yourself. Schedule A sets forth the price and projected common charge; Schedule B details the projected annual budget; and in a two- or three-page summary titled "Special Risks," the developer discloses the possible ways your investment could be jeopardized.

THE SQUARE FOOTAGE There are myriad ways to determine the square footage of an apartment. Some developers measure from the exterior walls, which adds unusable space to the figure. Others include outdoor space like a balcony, part of the exterior hallway or storage space — even if the storage unit is in the basement. "That can add anywhere from 10 to 40 percent to a plan," said Dolly Lenz, a high-end broker at Prudential Douglas Elliman. "It's really problematic." To avoid ending up with a unit smaller than indicated in the marketing materials, make sure you understand exactly how your apartment is measured.

THE FINISHES Many model apartments at preconstruction sales offices have sleek finishes, but some developers may offer substitutes in the end. The words "or equivalent" in the offering plan should be a red flag, said Sofia Song, the



90% Sold

Chelsea Green
151 West 21st Street
51 apartments by Alfa Development

Projected Opening:

January 2014



RENDERING BY NEOSCAPE

vice president for research of Streeteasy. "You go into the sales centers and you're wowed by the finishes," she said, "but instead of the Miele washer-dryer, you might be getting something else."

THE FLOOR PLAN Factor in surrounding apartments. One question to ask, said Ms. Fisher of Corcoran Sunshine, is what is happening with the apartment above you. "If it has a balcony," she pointed out, "that may create a shaded condition for the space that's beneath it." Pay attention to the entire floor, including the number of apartments and the location of the elevator and the trash room. In other words, she said, "are you right next to the garbage chute?"

THE FLOOR NUMBERS Eva Talel, a partner in the real estate group of Strock &

Strock & Lavan, a law firm in Manhattan, said one client who had thought she was buying on the 14th floor was actually on the 12th. When looking at the building plans, she hadn't realized that the first two floors were below grade. In the end she stayed on the 12th, but negotiated a lower price.

CEILING HEIGHT Check this, too. So-called transfer floors tend to have high ceilings with irregularly located ceiling drops, to accommodate mechanical equipment. Be sure to ask whether your unit is on a transfer floor, and if so, where exactly the ceiling drops are going to be.

THE VIEW Know your air rights. Apartments on what are called "lot lines" could lose their view if the neighboring



PHOTOGRAPHS BY JENNIFER S. ALTMAN FOR THE NEW YORK TIMES

60% Sold

Sackett Union
291 Union Street
11 town houses and 32 condos by Alchemy Properties

Projected Opening:

Summer 2013



RENDERING BY BROOKLYN UNITED

lot was developed. To prevent that from happening and preserve views for their buildings, some developers buy the air rights from surrounding buildings.

That's what Alchemy Properties did at 35 West 15th Street, where it is building a condo atop Xavier High School, which has adjoining property west and north. Most nearby buildings are no higher than six stories at the moment, but buying the surrounding air rights from Xavier will help maintain uninterrupted views from the condo, said Mr. Horn of Alchemy Properties.

Another informative tactic would be to pay a visit to the building next door. "I know it seems very forward," said John Wollberg, an executive director of sales for Halstead Property, "but try and ask someone in a building that you think may have a comparable view if you can come over." Sure, you may be turned down, he added, but to increase your chances, he said he would "hand-write a note to personally ask if there is any way I can impose upon them to come and look at the view for two seconds."

TIMING Expect delays. "The biggest pitfall with buying new construction is timing," said David J. Maundrell III, the founder of aptsandlofts.com, which specializes in marketing new developments. "There are always construction

delays, even if everything is going very, very well."

Mr. Maundrell recommends building at least six months of flexibility into your move-in date to be safe. Don't bother trying to lock in a mortgage rate when the timetable is still moving, he said. If your rate lock expires before you can close, you will have to go through the additional cost and hassle of locking in a new rate and possibly, getting a new appraisal. Wait until the building obtains a temporary certificate of occupancy and the tax lots are divided. At that point, Mr. Maundrell said, "the likelihood that you can move in in the next 30 to 60 days is very good."

To cover your bases, Barry Weidenbaum, a Manhattan real estate lawyer, recommends adding a clause in the purchase agreement setting a "drop-dead date" that requires the developer to cancel the contract and return the deposit if he or she is unable to close by then.

It behooves buyers, he added, to obtain this kind of solid mortgage contingency, as many banks will not lend in a building until a certain number of units are sold. "Find out expected completion dates, number of units in contract, and number of units closed and status of the company and tax abatements, if any," he said.