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Manhattan New Condos Raise Prices Monthly as Demand Soars

The One57 residential building stands under construction in New York City on Oct. 5, 2012.

Michael Stern was prepared for a gradual real estate rebound after buying a New York office tower in December 2009, with plans to convert it to condominiums following a housing plunge that sent prices down 31 percent.

Jan. 7 (Bloomberg) -- Jonathan Miller, president of New York-based Miller Samuel Inc., talks about Manhattan's residential real estate market. Manhattan's inventory of homes for sale plunged to the lowest in at least 12 years, a sign that prices may rise in 2013 if buyer demand intensifies. Miller speaks with Trish regan on Bloomberg Television's "Street Smart." (Source: Bloomberg)

Enlarge image

The One57 luxury tower stands with the top floors still under construction in New York on Oct. 5, 2012. Photographer: Victor J. Blue/Bloomberg

Now, long before the final floor tile is laid or the first resident moves into the Walker Tower development in the Chelsea neighborhood, Stern's firm, JDS Development Group, and its partner have increased prices on units at the building 13 times.

"I didn't let the market conditions of the day dissuade me," Stern said of his 2009 deal. "But I can't say I thought prices would be quite as lofty as they've proven to be."

Manhattan condo developers, in a construction revival after the credit crisis, are raising prices on their unbuilt units as often as twice a month as buyers return from the housing slump to find there's little on the market. The borough's inventory of homes for sale fell to the lowest in at least 12 years in the fourth quarter, according to appraisal firm Miller Samuel Inc. Sales, meanwhile, were the second-highest in a decade in 2012.

At least 21 new condominium buildings in Manhattan, comprising 1,188 units, increased some of their asking prices last year, according to New York State Attorney General Eric Schneiderman's office, which reviews details of condo plans. The market has heated up to the point where buyers are putting deposits on units that haven't been finished, a return to boom- era practices, said Shaun Osher, chief executive officer of the New York brokerage CORE, which is advising Walker Tower on prices.

Inventory, Demand

"Ultra-low inventory, international demand and rising domestic confidence has really pushed pricing," said Kelly Mack, president of Corcoran Sunshine Marketing Group, the new- development sales unit of New York brokerage Corcoran Group. "We're seeing quick decision-making like we haven't seen in years," she said of buyers.

Manhattan developers revived plans for new condo projects two years ago after sitting on the sidelines as the market worked through a glut of 6,500 newly built -- and unsold --units following the recession that ended in 2009. In 2011, builders filed plans to sell 2,267 new condos in the borough, more than the previous two years combined, according to the attorney general's office. They added plans for 1,695 units in 2012.

Macklowe Towers

Harry Macklowe, the New York developer whose short-term debt woes led him to relinquish seven Manhattan office towers purchased in 2007, has boosted prices on two East Side condominiums he has in development. At 737 Park Ave., a prewar building near 71st Street where former rental units will be converted into 98 residential condos, Macklowe Properties raised prices twice in November, increasing the units' total value by 1.7 percent to $604.4 million, according to the attorney general's office.

At Macklowe’s 432 Park Ave. -- located on the site of the former Drake Hotel and slated to become Manhattan’s tallest residential tower when it is completed in 2015 -- prices have climbed 1.3 percent since July, when the attorney general first approved its sales plan.

An outside spokesman for the property declined to comment on the price increases or how many units have sold at the building, which has yet to go vertical. An Oct. 24 letter from the developer’s lawyer to the attorney general’s office said that six units were in contract, and as many as 12 more were close to deals.

Wine Cellars

Plans for the 1,397-foot (426-meter) property include private wine cellars guaranteeing a climate no warmer than 57 degrees Fahrenheit, and a catered private dining room in which residents must purchase at least $1,200 in meals annually, according to offering plans filed with the attorney general.

At Walker Tower, formerly offices for Verizon Communications Inc., the value of all apartments climbed 5.8 percent since May to $533.2 million, according to amendments filed with the attorney general. The 24-story building, at 18th Street near Seventh Avenue, began sales in June, and residents are slated to move in later this year, said Osher of CORE.

“We’re going to see a lot more people stepping up to the plate and buying off floor plans,” Osher said. “This is really a sign of what’s happening: Incredible demand plus low inventory.”

A three-bedroom apartment on the 11th floor of Walker Tower is being marketed for $9.25 million, or 16 percent more than its $8 million price tag in May, according to a Jan. 15 filing with the attorney general’s office. The full-floor penthouse on the 24th floor is listed for $55 million, up from $50 million in May. The 5,955-square-foot (553-square-meter) unit has five bedrooms, five bathrooms and comes with 479 square feet of outdoor space.

Citizen Tower

Another development in Chelsea, the Citizen, has increased prices 62 percent since sales began last April, according to attorney general filings. The newly constructed tower was built on a land parcel acquired by developer Anbau Enterprises Inc. on Sept. 15, 2008, the day that Lehman Brothers Holdings Inc. filed the largest bankruptcy in U.S. history, ushering in a freeze to the Manhattan sales market.

“I was thinking, ‘Gosh, this is not a good time to be closing on property,’” Stephen Glascock, president of Anbau, said in a 2011 interview. “We just saw that there was no new supply coming on the market. A year from now there just aren’t going to be many new units available.”

Glascock didn’t return a message left with his assistant last week.

Inventory Decline

There were 4,749 apartments on the market in Manhattan at the end of December, a 34 percent decline from a year earlier, according to Miller Samuel. Sales last year rose 3.4 percent to 10,508 transactions, second only to 2007 in the past decade.

The drop in inventory is a sign that prices may rise across the market in 2013 if buyer demand intensifies, said Jonathan Miller, president of the New York-based firm. Owners are in no rush to list their apartments in a market where values have remained relatively flat for three years, he said.

New development accounted for 13 percent of all sales in the fourth quarter, compared with a high of 58 percent in the second quarter of 2006, as the slowdown in new construction in 2009 and 2010 produced little to buy last year, Miller said in an interview. Plans for new condos plunged 79 percent in 2009 from the prior year, according to the attorney general's office.

The average price of a Manhattan condo sold in the fourth quarter was $1.87 million, up 5.4 percent from a year earlier, according to Miller Samuel.

Creating Urgency

Incrementally raising prices on new condos is a well-worn marketing strategy that "creates urgency" among would-be buyers to sign a contract, Miller said. It only works, though, in a market where the pace of sales of brisk, and demand is steady, as it is right now in Manhattan, he said.

"This is fairly indicative of the lack of competition," Miller said of the price increases. "The early adopters in terms of the ones that came on first have the most leeway because they have limited competition."

Extell Development Co. was one of the earliest adopters, breaking ground in 2009 on One57, a luxury tower that has smashed sales records with two deals valued at more than $90 million each for upper-floor duplexes.

Buyers have been putting in deposits based on floor plans, a model apartment in the 6,000-square-foot offsite sales office and photographs by a camera mounted on a drone helicopter that show views at different elevations of the 90-story tower.

88th Floor

Extell has increased prices at least twice. A 6,200-square- foot full-floor apartment on the 88th floor, the highest unit available for sale as of September, was listed at $67 million, a 28 percent markup from its initial offering price in June 2011.

The 87th-floor unit was increased to $64.5 million, or 36 percent more than in June 2011, sales documents show.

"Many factors play into a decision to raise prices, but specifically we look at demand, absorption rate and supply," Donna Gargano, senior vice president at Extell, wrote in an e- mail.

While many deals in towers like One57 are all-cash, the hurdle for new developments during the slump stemmed from a lack of financing for would-be buyers. Mortgage-finance company Fannie Mae tightened its rules in 2009, declining to back loans made in new buildings where fewer than 51 percent of the units are in contract.

When sales stalled below that threshold, mortgage lenders were hesitant to make loans at such properties, said Orest Tomaselli, chief executive officer of National Condo Advisors LLC, a White Plains, New York-based consulting firm that helps developments comply with Fannie Mae and Federal Housing Administration lending requirements.

Sales 'Explosion'

"That's really not going to be an issue for very much longer because these developments are blowing through these sales numbers," Tomaselli said. "You have an explosion in the velocity of sales, so not only can the site be approved, but it could eclipse the 51 percent presale" requirement.

Higher prices at a new development only bolster the confidence of Fannie Mae, since rising values going forward lowers its risk, he said.

"If the price increases, then the median loan-to-value decreases for the lenders," he said. "It's actually a good thing."