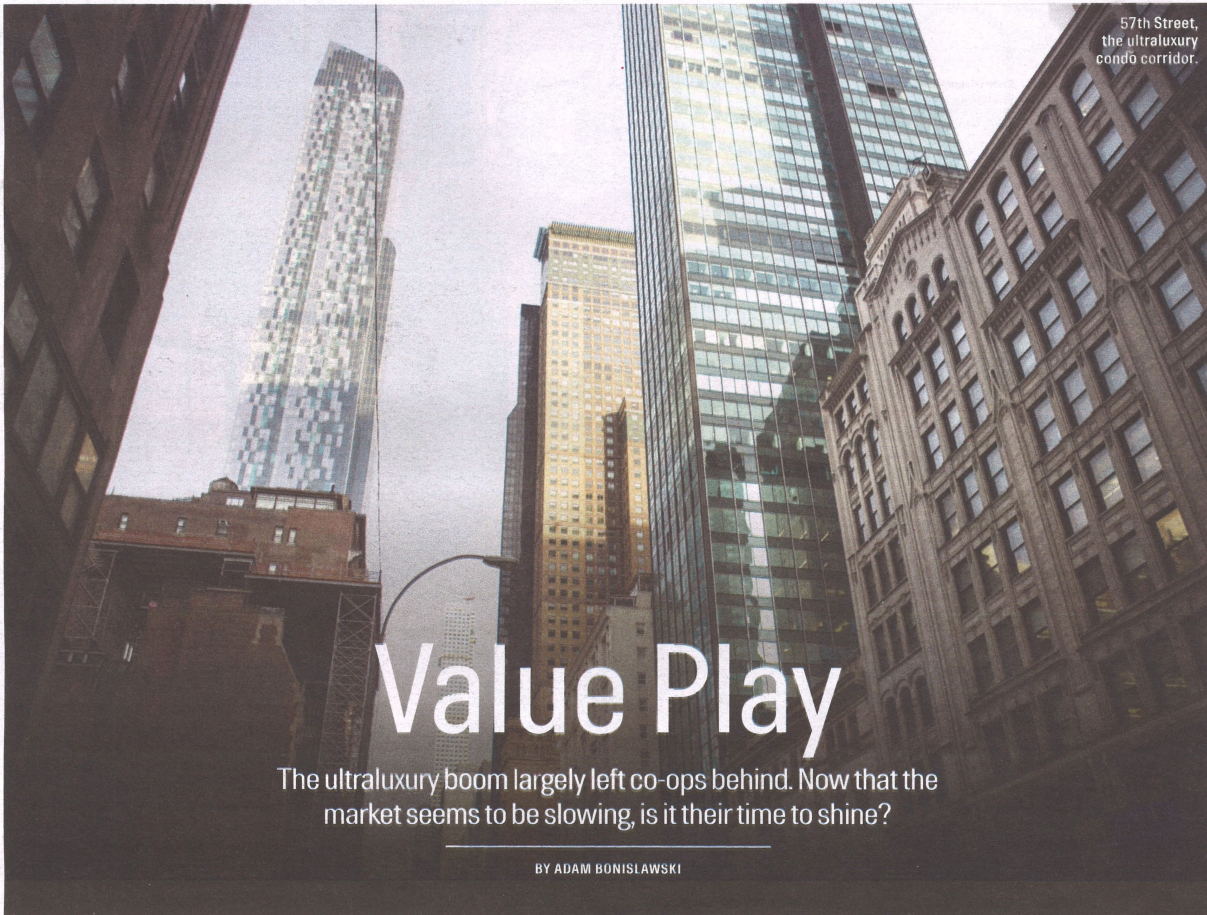


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REAL ESTATE



Value Play

The ultraluxury boom largely left co-ops behind. Now that the market seems to be slowing, is it their time to shine?

BY ADAM BONISLAWSKI

No one wants to be the guy shouting “slowdown” at the real estate party, but there are signs that after several smoking hot years, New York’s housing market is starting to cool off.

Prices are still on the rise. In fact, according to Douglas Elliman’s most recent market report, in the first quarter of 2016, the average sales price of a Manhattan apartment broke the \$2 million barrier for the first time, rising to \$2.05 million, an 18.4 percent increase year-over-year.

That jump, though, was driven significantly by closings in the ultra-luxury market on apartments that in many cases actually sold several years back. Meanwhile, according to numbers from Bond New York, pending sales dropped in Q1 almost 20 percent year-over-year, while active listings were up just over 10 percent. To put things simply: Falling Sales + Expanding Inventory = Hmmm...

The recent run-up in prices has been dominated by the condo market, which has seen prices per square foot rebound from a post-2008

nadir of \$1,167 in 2010 to \$1,529 in 2014, according to numbers from appraisal firm Miller Samuel. Co-ops, on the other hand, have traveled a more modest trajectory from a low of \$910 per square foot in 2009, to a high of \$1,143 in 2014.

Given the market’s apparent softening, though, might it be time for co-ops to shine anew? Might their perceived stability—the product of the same interviews, residency requirements and financial disclosure rules that turn some off in the first place—now lead buyers back to their warm (if perhaps a touch over-tight) embrace?

Well, maybe.

“I think co-ops do traditionally hold their values better in downturns,” RealDirect CEO Doug Perlson told the Observer, making the conventional case for such buildings’ greater stability.

“People who are buying co-ops are traditionally New Yorkers who intend to live in their homes. They are putting more money down, and they have a greater incentive to live there and make it work.”

The condo market, on the other hand, is more subject to the enthusiasms of investors and flippers and shadowy LLCs.

“So the condo buyer pool might dramatically increase during periods when the market is rising, and people see condos as being good opportunities,” Mr. Perlson said. And because condo buyers typically put less money down and are less thoroughly vetted than co-op buyers, prices are more vulnerable when the market eventually falls.

Or so goes the theory, anyway. In reality, the evidence is less clear-cut. For instance, while in the aftermath of the 2008 crash average condo prices per square foot fell 15 percent (again according to numbers from Miller Samuel), the drop-off was even larger for co-ops, 17 percent.

“When the market goes down, it goes down all across the board,” Douglas Elliman broker Toni Haber said. “I don’t know that co-ops are shielded from that.”

Price stability isn’t a co-op’s major selling point, agreed Robert Dankner, president of

Prime Manhattan Realty. Rather, he suggested, they provide “more stability for your living experience. The value is that you know you are living in a place with likeminded people.”

Or, as Bond broker Stacey Max puts it, it lets buyers carve a community from out of the larger craziness that is New York.

“I think for New York City co-op living works really well,” she said. “I think when you are in a big city you want to make a community smaller.”

Of course, that community then gets a lot of say in your living arrangements, determining, for instance, if you’re allowed to use your place as a pied-à-terre or if you can rent it out and if so, for how long.

With less flexibility, though, typically comes a lower price. Generally speaking, co-ops sell for around 20 percent to 30 percent less than an equivalent condo unit, said DJK Residential’s Zachary Elias. And for that kind of discount, it might be worth trading away some freedom.

“The word condo comes with a certain cachet, and people do overvalue [their need for flexibility],” he said. “If you are just someone who wants to live in your unit indefinitely, there is almost no need for a condo. When [a buyer] says they only want a condo, the first word out of your mouth [as a broker] is, ‘Why?’”

“In most of Manhattan, co-ops are the better deal for most people,” Mr. Perlson agreed, noting as an exception to this rule condo buildings with “extremely long 421a tax abatements,” which can in some cases reduce owners’ monthly expenses enough to compensate for the higher sales price.

Additionally, Mr. Elias said buyers looking for newer, amenity-rich construction are probably better off taking the condo route as co-ops tend to be older buildings, and, he noted, “they aren’t building any more of them.”

But that’s not strictly true. For instance, last year HFZ Capital launched sales at the Chatsworth, a former rental building 344 West 72nd Street that the developer converted to a co-op. To an extent, however, the building is a co-op in name only, as its purchase approval rules are essentially the same as those in a typical condo.

Co-ops in New York City date back to 1881, when the Rembrandt apartment building at 152 West 57th Street opened its doors. The last major wave of co-op conversions in the city occurred in the 1980s as landlords, facing rising maintenance costs due to the oil crisis, found themselves unable to turn a profit on their rent-stabilized buildings. Going co-op provided a way out of this pickle.

Building owners tended to go co-op instead of condo because with a co-op conversion they didn’t have to first pay off their underlying mortgage, Ms. Max said. “So if a landlord had a mortgage on their rental building, they could then convert without having to pay it off and then sell the shares to the co-op. If they were going to convert a building to condo, they would have to pay off their mortgage first and then start selling the condo units.”

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From top: Zachary Elias of DJK Residential outside his co-op at 720 Fort Washington Avenue; the Chatsworth, a rental-to-co-op conversion at 344 West 72nd Street.



FROM TOP: SAM DRETTZ FOR NEW YORK OBSERVER; BOB D'AVANZO/FLOR

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The result? A Manhattan housing stock in which co-ops dominate, composing roughly 75 percent of the borough's apartments, compared to 25 percent for condos.

That number is highly neighborhood dependent, though, Mr. Dankner noted.

"Generally speaking, the older established residential areas have a preponderance of co-ops, while the newer neighborhoods, sometimes considered outliers and now considered hip, are where you find most of the condos," he said. "For example, in western Chelsea it's all new and predominantly condos, versus [the co-op-heavy areas] around Central Park or in central Greenwich Village."

But despite their differences, the two classes of properties are "in subtle but tangible ways taking on the characteristic of each other," Mr. Dankner said.

On the condo side, the recent influx of foreign buyers has led some buildings to adopt stricter rules regarding the provision of funds to cover common charges, he said.

"For example, if there is a foreign buyer who doesn't have a lot of assets here, the condo board [may be] concerned that if something happens and they don't have assets here and they stop paying their common charges, then the condo becomes responsible for them," he said. "So over the past several years, I have seen in many cases condominiums require buyers that disclose less to escrow common charge payments for several years at a time."

Some co-ops, meanwhile, have loosened restrictions in an effort to goose sales. For instance, Mr. Dankner said, he has recently seen a number of building begin to allow trusts and LLCs to buy into them, provided full disclosure of the parties represented by these vehicles, of course.

"I'm seeing these types of rules relaxed on a pretty broad scale across the city," he said. "I think it is a response to how well condos have done versus co-ops and also just being in touch with the realities of a competitive market and [ensuring] that the value proposition of a co-op is not corrupted by barrier to entry."

FirstService Realty broker Carla Kupiec told the Observer she has seen less flexibility among the co-ops she typically shows in. That said, she just had a client win board approval despite having a balance sheet that wasn't quite up to the building's traditional standards. "Very lenient!" she said.

One factor driving this shift is new information indicating that looser rules can lead to higher sales prices, Mr. Perlson said.

"It used to be that co-ops with condo rules didn't really sell for much of a premium over traditional co-ops," he said. "Now we're starting to see, however, that those [less stringent] co-ops are selling at premiums. So as an owner now you can actually point to some data as to what might happen if you relaxed some of the rules."

"I don't think we'll start seeing unlimited sublet policies all over the place, but I think there are other rules that will eventually get relaxed, and we will see more and more buildings that will get more flexible over time," Mr. Perlson added. "Those conversations are definitely happening." ■

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