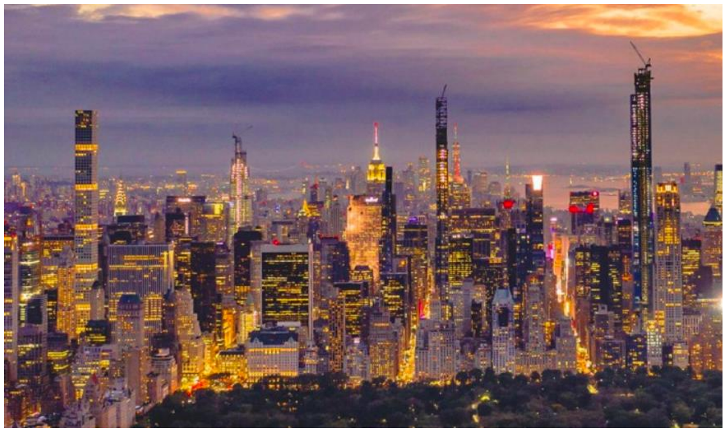
FT FINANCIAL TIMES

December 4, 2020

Shopping for a bargain on NYC's Billionaires' Row

The pandemic has hit New York's luxury market hard.
While that means pain for developers, there may be an opportunity for buyers.



Gary Barnett is losing money. Over the past decade, the chairman of Extell Development, New York's foremost developer of super-luxury properties, has bequeathed to the Manhattan skyline not one but two of the super-tall towers that have rechristened 57th Street as "Billionaires' Row".

In one of those towers, One57, Extell sold the penthouse to computer mogul Michael Dell for a then-record $100.5m in 2014. But now the city's luxury property market is in the grip of a once-in-a-century pandemic. With foreign buyers unable or unwilling to even visit the US to shop for real estate, Barnett expects to take a hit on three of his residential projects — he won't say which. On others he may just break even after undertaking the Herculean task of erecting a new building in Manhattan. "It's very, very, very frustrating to build the most beautiful buildings in the world — super quality, super finishes — and to have to sell at a loss," he laments.

But to property buyers, a luxury developer's pain may well be their gain. Across New York City, developers are cutting prices on luxury properties in a desperate attempt to move inventory. They are also picking up closing costs and throwing in other inducements for those brave — or foolish — enough to jump into a market and commit to a multimillion-dollar purchase just as a second wave of Covid-19 is bearing down on the city. "It's a golden opportunity to buy now," Barnett says, estimating that "bottom fishers" were benefiting from price cuts of about 20 per cent. "The only reason not to buy now would be if you think that either the pandemic is going to continue for a much longer time, or you think that the world won't come back to more or less normal post-pandemic." Whether the market will come back — and over what time period — is hardly certain.

New York City's luxury property sector had been mired in a slump before Covid-19. Some properties were so wildly overpriced, developers admit, that even a 20 per cent discount may not be much of a bargain, after all.

Then there is the pandemic. It has closed en masse restaurants and theatres that supply joy to the city, while pushing up crime and homelessness. It might seem obscene even to contemplate buying a luxury property during a week in which governor Andrew Cuomo warned of a wave of coronavirus infections that threatens to overwhelm New York's hospitals. Or it might be just the time.

Frances Katzen, a broker at Douglas Elliman, sold a penthouse this month for $18m. It had been listed at $19.9m. Another client submitted an offer last Friday for a different property. Three others are looking, she adds. "The big money really wants to take advantage of the blood. And they're smart. They should," Katzen says.

Barbara Fox, a veteran Manhattan broker and founder of the **Fox Residential Group**, estimates that luxury property prices were down 10 to 20 per cent before the pandemic hit New York in March and have since fallen another 10 per cent.

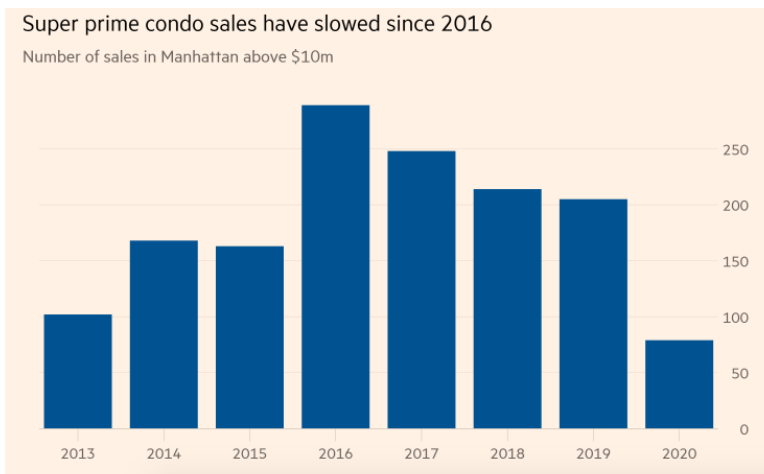
"All pricing has gone down across the board. All of these new developments that have gone up across the city are negotiating. Heavily," she says. Her buyers tend to be desperate to move now because of a life event — a new job or a child's school, for example — or they are, as she puts it, "Covid shoppers".

One such client is mulling a three-bedroom apartment on the west side for around $5m. The seller has agreed to cut the price by 20 per cent and pick up all closing costs, among other concessions.

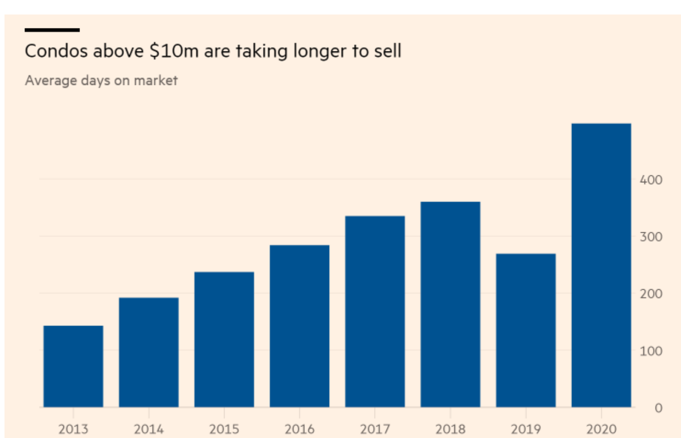
"They haven't signed it yet, and if they don't sign it they're crazy because it's the best deal they'll ever see," Fox says. On the other side of the ledger, a buyer who had signed a contract in early March — just before the city shut down — subsequently forced a seller Fox was representing to make two more price cuts before agreeing to close. "The buyers are aware that the sellers need to sell, and are milking it to the hilt," she says.

New York's luxury property market was suffering before the pandemic arrived. Years of cheap money and the success of developers like Barnett drew in imitators and resulted in a glut of lookalike new developments, particularly in the $5m to $10m range. Extell's first super-tall, One57, is now flanked by a half-dozen others in and around 57th Street. Among them is Extell's soon-to-be-completed Central Park Tower, a gleaming, 1,550ft dagger in the skyline that is the city's tallest residential building and cost a reported $3bn. Most of its 179 units are unsold. Developers were encouraged by signs of a pick-up in business at the beginning of the year — only for Covid-19 to effectively close the shop.

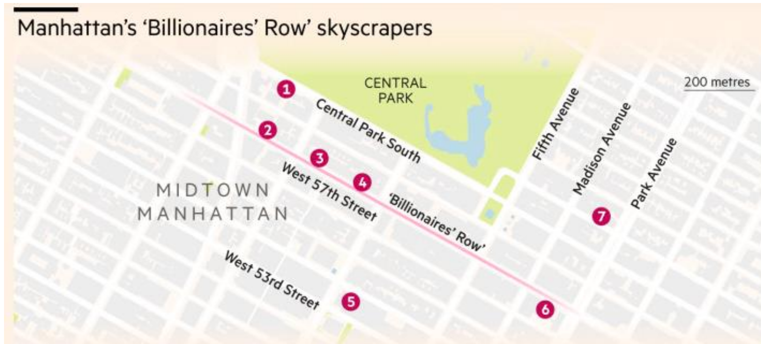
Activity slowed to a trickle over the summer. Some buyers actually sacrificed their deposits to walk away from deals. The mood was not helped by reports — some hysterical — about surging crime and an exodus of wealthy residents from a decaying and dystopian metropolis. "I mean, who wants to buy in a city that everybody's trying to move out of?" Fox quips — quickly making clear that she does not actually believe that's the case.



Business has since stabilized. From October 1 through November 15, the volume of deals in Manhattan was $2.54bn, a 2 per cent increase over the same period a year earlier, according to Serhant, a New York broker. The number of deals in the $5m to $10m range was up 7 per cent, while those in the $10m to $20m range were down 44 per cent. "The fact that the city is above the Q4 number to date in the midst of a pandemic is promising in that it shows buyers are still circling the market," says Garrett Derderian, Serhant's director of market intelligence. He predicts that the arrival of viable vaccines could be a "game changer". As they try to guess where the market will go from here, brokers and developers have had to play amateur epidemiologists. Covid-19 cases are again rising in New York City, and the wider outlook is grim.



Still, the development of new vaccines has persuaded many in the property business that demand will snap back in the spring, if they can just hold on. Many cite the market's robust recovery within months of the 9/11 terror attacks and the 2008 financial crisis to justify their confidence. In the meantime, brokers say New York-based buyers should expect bargains — but not fire sales. Jim St André, a luxury broker at Compass, says he regularly receives — and dismisses — offers at 50 cents on the dollar. "What's the lowest price the seller will take on that?" he recalled one prospective buyer asking by email. Sellers are willing to negotiate, he acknowledged, but within reason — particularly in sought-after neighborhoods with limited supply, such as the West Village. Most buyers tended to be from New York, since "you don't usually buy a $29m penthouse via a virtual tour". (Although someone recently paid $28m in cash for a West Village townhouse they had never visited, according to the New York Post.)



	1 220 Central Park South	2 Central Park Tower*	3 One57	4 111 West 57th St*	5 53 West 53	6 432 Park Avenue	7 520 Park Avenue
Construction started	2013	2014	2009	2014	2015	2011	2014
Number of units	117	179	94	60	145	125	35
Record price ($m)	240	66	100	66	30	91	74
Ave. price per square foot ($)	7,195	6,616	4,516	5,749	2,753	5,924	5,635

Mindful of Covid-19, shoppers are prioritising outdoor space and parking. "Those are the checkpoints for a lot of buyers," St André says. Even in a crisis developers are loath to reduce prices — not only because it cuts into their profits but also because it risks antagonising those who have already bought in a building at higher prices. What if someone ends up buying the penthouse for less than the apartment two floors below, with inferior views?

One building that broke with convention and moved quickly to discount was 77 Greenwich, a 90-unit development that is facing stiff competition from other luxury newcomers in the downtown financial district. At the urging of Jacqueline Urgo, president of The Marketing Directors, the agency overseeing sales, the owners, Trinity Place Holdings, cut prices by 15 per cent on 15 units. What might have seemed desperate was an acknowledgment, says Urgo, of a difficult market: "These are unprecedented circumstances," she says. "There's no longer an international market. We're missing that market." Even before Covid-19, Trinity Place was offering a special incentive of up to $175,000 off for buyers who work in the neighborhood. Aside from the pandemic, lenders may be another variable that may determine deals and discounts. Until now, lenders have generally been lenient with developers who are struggling to sell units and repay their loans. The thinking is that they would not fare any better if they were to repossess them and try to sell the properties themselves.

But, as the crisis drags on, their patience will wear. One high-profile New York luxury developer, HFZ Capital, which is behind the Bjarke Ingels-designed The XI tower along the High Line elevated park, is currently being strafed with lawsuits from its lenders after allegedly missing payments. Extell has been approached by lenders to take over several troubled projects, according to Barnett. The idea would be to package and then resell them. But, he warns, many of the projects have flaws beyond the pandemic — be it construction issues, ill-conceived layouts or poor location. Addressing those issues, and absorbing the taxes and other expenses, will be costly.

"There are a lot of people kicking the tires, looking at stuff, and stuff will trade," says Barnett. "I'm just pointing out: even when it trades ostensibly at a ridiculously low price, it's not going to be reoffered to the residential buyer at a ridiculously low price." Erecting a 1,550ft tower is an act of faith. And so Barnett is certain that Manhattan will regain its lustre, and that its luxury property market will resume its upward climb when the pandemic is eventually vanquished. In the meantime, though, he is taking his lumps. "It's to cry for — but what are you going to do?" Barnett says. "That's reality, and that's what we deal with. We live in the real world. Sometimes you win, sometimes you lose. We're going to lose now."

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