

THE REAL DEAL

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Developers see land prices jump

By Juliette Fairley

When the Mayflower Hotel and a vacant lot on West 62nd Street and Central Park West sold for \$401 million in May, its price of \$650 per buildable square foot made it the highest such price ever paid in Manhattan for a future residential development site.

Developer Jules Demchick is planning a condo building at 83rd St. and York Ave.

More than style, buzz or even location, land suitable for development is a prized commodity in New York. As they say, they aren't making any more of it. Adjusted for inflation, the \$24 bargain the Dutch struck for Manhattan in the early 1600s wouldn't buy a parking place today.

Manhattan land prices continue to rise at an astonishing rate, but developers say the astronomical prices of completed condo units allow them to forge ahead and still turn a profit despite the site costs.

In the last 18 months, Manhattan land prices have doubled in some areas, says Bob Von Ancken, executive managing director of the valuation and advisory group of Grubb & Ellis.

On the Upper East Side, for example, land prices have jumped from \$200 per square foot to \$400 per square foot. From 60th Street to 86th Street, between First Avenue and Lexington Avenues, developable land is selling in "the \$400 range, where only three years ago, it was in the \$100 range. It's unbelievable," says Von Ancken.

In the most notable transaction in that neighborhood, New Jersey-based Garden Homes Development bought Beth Israel Hospital's Singer Division property at 170 East End Ave. for \$185 million, or \$770 per buildable square foot - another record price for a residential site, and coming a month after the Mayflower deal, in June. Luxury condos with East River views will be built on the site.

In November, developer Property Markets Group paid an even higher price — \$1,050 per square foot — for the 12-story prewar 823 Park Ave. at 75th Street. It wasn't a pure land deal, as the developer also had to buy out the building's remaining tenants.

"The reason land prices are so high is because the profit being generated from condominium development is enormous," says Von Ancken.

"Condo units are selling for \$1,000 to \$1,200 per square foot on average. Developers can make a huge profit because demand is so keen."

The demand is high because Manhattan means a nearly perpetual housing shortage, says Jules Demchick, president of JD Carlisle Development Corp. The group developed Morton Square in the West Village and is now constructing a new 28-story, 128-unit condo at 83rd Street and York Avenue, called Cielo.

"When you think about the millions of people in New York City, you are looking at a small number of homes for that piece of property," he says.

Land on the Upper West Side, along Broadway in the 70s, is selling for around \$200 a square foot, Von Ancken says. The Mayflower Hotel site, which was bought by a joint venture group including William and Arthur Zeckendorf and Goldman Sachs, includes an entire city block of around 70,000 square feet, which will see future condo development. It fetched a higher price because of the Central Park location and partly because of "spillover from the Time Warner Center," Von Ancken says.

In Lower Manhattan, near Wall Street, land prices are currently in the \$125 to \$150 per square foot range. In Chelsea, land is going for \$150 to \$200 per square foot.

The price of land often dictates what type of building will be constructed, and why rentals are more likely on Wall

Street than on the Upper East Side.

"You can afford to pay \$175 or \$200 for land if you are going to put up a rental building, but not more," Von Ancken says.

Most new developments these days have celebrity architects and luxury amenities, such as private clubs, wine refrigerators and televisions in the elevators. In order to make a profit on these bells and whistles, the location of the development is extremely important, says Barbara Stone, president of Regency Capital Realty.

"These costs are going to pass onto the consumer. So, the positioning of the building in the luxury market has to be right. One neighborhood may be a different type of market than another and they have to take into consideration their target buyer," she said.

Developments currently being planned will open to the public in 2006 and 2007, and much can change in that period. But even if the market slumps, developers are betting Manhattan is strong enough to recover.

"The developer's actions speak louder than anything else. If they are buying and building, they have to think it's a good investment because no one is buying to lose money," says Richard Bassuk, president of the Bassuk Organization, an investment banker that has completed about \$20 billion in financing for condo development in Manhattan in the last 20 months. "If there are two or three year down periods, Manhattan recovers faster than any other place in the country. If you have staying power here, the risk is almost nonexistent."

Ralph Trionfo, president of Upside Ventures, a commercial real estate firm that has sold three pieces of land in Manhattan this year, says losses are possible, but chances are slim.

"They will be able to recoup their investment because prices of units keep going up and Manhattan residents expect to pay those prices," he says.

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