

THE REAL DEAL

Dogged by the 'dog' line

As inventory sits, problem apartments become even more worrisome to developers October 01, 2009 07:00AM

By Alison Gregor



They're known as "dog" lines: the vertical row of apartments in a condo building that are hardest to sell. They may lack a view, be oddly laid out, or be smaller than their neighboring units down the hall.

While dog lines tend to sell last in any market, they can be especially difficult for developers to deal with in a downturn like this one.

David Sigman, a senior vice president and principal with the development group LCOR Incorporated, which has several New York projects, said that developers may be particularly vulnerable to dog lines if they negotiated minimum sales prices with their lender and the offers for apartments are coming in below that amount.

"A line of park-front units might be maintaining value, whereas a line with an obstructed view wouldn't, but that might not be reflected in the original pricing schedule you had with your lender," Sigman said.

"So you might find yourself being able to sell the line of good units at a price that's near but above the minimum, but not being able to sell the line of bad units, because that's where the greatest price changes happen," he said.

Doug Bowen, a vice president with Core, which markets a number of new developments, said the discrepancy between lines can be especially pronounced in the outer boroughs, in neighborhoods like Williamsburg, where some apartment lines have views of Manhattan and others don't.

"The challenge from an apartment-line standpoint," he said, "is how to deal with the red-headed stepchild line."

Shaun Osher, the founder and CEO of Core, said sometimes developers can add amenities to the "dog" line, like verandas or balconies, to make the units more appealing.

One issue that plagued developers in many condo conversions is having too much space for a one-bedroom

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apartment, but not quite enough for a two-bedroom, Osher said.

That extra square footage, which would affect a whole line, could have theoretically increased the price, but it wasn't useful for buyers.

During the boom, marketers were able to convince buyers that the extra space could be useful as a home office, and what was an albatross became a boon.

Kenneth Horn, the principal and president of the development group Alchemy Properties, which has done 23 condo projects in the city, said his firm uses one-bedroom apartments with dens, as opposed to a second line of dark studios, at some of its projects.

"Obviously, when you've got a building that's got a deeper footprint, and is possibly mid-block as opposed to being on a corner, inevitably you're going to have some lines that are either darker or may not be as desirable," Horn said. "The dens were one way we dealt with that."

Developers generally do what they can to minimize the discrepancy between, say, "Line A" and "Line B" before the building is constructed.

"To the extent that you can deal with it up front as you're assembling the site and laying out the building, that's obviously the best place to do it," Sigman noted. "Dealing with it after the fact, when you realize it has an obstructed view or whatever the issue is, it's a lot harder to start playing games with pricing."

However, Sigman noted that there are rare cases where developers do work ex post facto to get an apartment line to sell.

For instance, in the Charleston, a 22-story high-rise condo at 225 East 34th Street, developed by LCOR in 2007, developers had to re-engineer the closet space.

"We had an issue with the size and shape of the closets in one line, so we ended up building the closets out in those, so that people could see how the closets could be utilized," he said.

"But we've never really done anything major after the fact," Sigman added. "It ends up being a pricing issue more than anything else."

Osher noted that brokers and developers need to price correctly and manage their inventory so they don't get stuck with one apartment line that sells, and another that doesn't.

"If the marketing people are smart, they'll try to sell a building in a very balanced manner, so usually the pricing adjustment will minimize the possibility of selling out one line," Osher said.

While lowering the price on the "dog" line is one way to prompt sales, selling units in waves, rather than all at once, is another long-time go-to strategy, said Jonathan Miller, the president of appraisal firm Miller Samuel.

"Up until the market changed last year, what brokers didn't want to do was wipe a building out of the quickest-selling units," Miller said. "They try to have an even mix in terms of what they release to the market."

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When one line does sell out long before another, it can reflect negatively on the building and affect the remaining sales, Miller noted.

The power of appropriate pricing can be substantial, Horn said. When Alchemy converted an existing building at 42 East 20th Street, now known as the Bullmoose Condominium, the developer was forced to create small, dark two-bedroom apartments in the rear due to the existing floor layouts and elevator core.

"We priced that one line at a lower price per square foot than any unit in the building," Horn said. "And interestingly, it was the first line that sold in the building, because it was the lower-priced unit in a very good neighborhood."

Horn said he works with lenders to establish the minimum release price "not only on a line-by-line basis, but a unit-by-unit basis." He said, "We don't come up with a set number, saying all the units will be released at such-and-such dollar value."

He added, "the higher up you go, theoretically, the unit should trade for more money."

Bowen said that in Williamsburg, where the "dog" line effect can be extreme, he's thrilled to be marketing a condo complex that has 55 unique floorplans out of 85 units. He said that at the project, at 125 North 10th Street, developers chose to avoid building even one full line of apartments in the two six-story buildings.

"It's fantastic from a marketing standpoint, because people are looking for something unique," he said. "We differentiate ourselves from some of the larger, waterfront projects, which are very tall and have classic lines in them."