MANSION GLOBAL

When Sellers Compete Against Their Building's Developers

As sales slow, sellers of New York luxury condominiums sometimes find themselves in competition with building developers when it comes time to sell.

BY KATHERINE CLARKE ORIGINALLY PUBLISHED ON OCTOBER 25, 2017 | THE WALL STREET JOURNAL |

It is a seller's nightmare: Putting a luxury condo on the market, only to find that upstairs, another unit that has never been lived in is on the market for the same price or less. And to make matters worse, the seller upstairs has the resources to keep cutting his price if his place doesn't sell.

This is the plight that some owners of luxury condos built in the past few years are encountering, as they find themselves in direct competition with their building's developer when it comes time to sell.

It isn't supposed to work this way. Typically, developers don't allow buyers to resell for the first year after a building is completed, to prevent owners from quickly flipping their homes for a profit. In a hot market, a year gives the developer plenty of time to sell most of a building's units.

But now sales at the top end of the luxury market are starting to slow. In total, the number of sales for Manhattan apartments priced at $10 million or more fell by 25% in the third quarter, compared with the same period last year, according to a Wall Street Journal analysis of public property records. That is in large part due to the oversupply in the luxury sector, caused by a rush by developers to build ultrahigh end product at the peak of the last cycle.

More developers are finding that a standard one-year restriction is no longer enough to ensure that they're sold out by the time resales start hitting the market. Instead, they're going up against people who've already purchased in their buildings in the battle to court new buyers, and driving prices down for everyone as a result.

“There are lots of buyers out there who are finding that their assets are being devalued by their own sponsor,” said Frances Katzen of Douglas Elliman, an agent preparing to put a resale on the market at 30 Park Place. “I think that there are plenty of people who are very angry to see that.”

Take One57, the ultraluxury tower on New York’s West 57th Street which quickly became known for its high-end amenities, top prices and wealthy buyers when it launched sales in 2011. Despite the buzz, nearly a dozen available listings are still posted online after six years of sales efforts by Extell Development, the building’s developer. The result: The developer is cutting its prices.

For example, a four-bedroom, 43rd floor unit is currently on the market for $17.5 million after listing for $19 million in 2015, and a three-bedroom, 42nd floor unit is asking $16.9 million, down from $18.75 million in 2015, according to listings website StreetEasy.

Owners in the building who wish to resell are doing the same. Late last year, a seller at One57 swallowed a more than $8 million loss when the unit sold for $23.5 million, far less the $31.7 million it sold for two years prior.

In a statement, Extell executive Anna Zarro said she couldn’t speak to the specific cases as to why residents decided to sell their homes, but said she was “confident that One57 will continue to be one of the best investments and buildings in New York.”

Resales are also competing with brand-new units at other buildings. “A buyer is always going to say, ‘Why should I buy this one when I can go upstairs and get a brand new apartment for the same money?’” said agent Ryan Serhant of Nest Seekers International, who is listing a resale at 50 West Street.

Some owners have tried to stand out by differentiating their units from those of the sponsor. In the case of one unit at One57, real-estate agent Noble Black of Douglas Elliman said it helps to have an income-generating tenant in place, which makes the unit more appealing to investors. Stefani Berkin, president of brokerage Charles Rutenberg, said her agents have also had success competing against developers by selling the apartment furnished and turnkey.

Of course, the best option for would-be sellers in these condos would be to wait until the developer’s units are all sold—and the ultraluxury market spikes again—but for some, this isn’t a possibility.

When Jason Thomas, an agent at Elegran Real Estate, brought his Texas-based clients to see a two-bedroom apartment in New York’s NoMad neighborhood in 2015, they were looking to buy something as a long-term investment for their daughter, who had found a job in the area. They closed on the property, in a new condo conversion at 90 Lexington Avenue by developer HFZ Capital Group, for approximately $3.13 million in December.

However, when their daughter decided to move back home and join the family business just a few months later, they were faced with the prospect of reselling it, Mr. Thomas said.

That is not proving as easy as the Texans had hoped. First, they grappled with having to wait a full year to put it back on the market, given the one-year restriction on reselling. After realizing that their apartment would face competition from several sponsor units still remaining on market through the developer, they worried that HFZ would be able to easily undercut them on price. Now, they've decided to rent their unit instead, Mr. Thomas said. HFZ declined to comment. "The developer can discount as needed to make a sale and fund the shortfall with revenues from other projects," said Mr. Thomas. "An individual owner can only discount so far before they go into the red."