THE GUIDE TO LUXURY LIFESTYLES IN THE TRISTATE AREA

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## Manhattan's 25 Newest Conversions

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# For Those About to be Converted

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When talking about real estate, the question inevitably enters the conversional swirl: "Heard of any new conversions lately?" To Manhattanites, the term "conversion" has connotations, the most important being "Can I cut a good deal?"

My first exposure to the term "conversion" was during the mid-1980s when I was new to the appraisal profession. Before the October 1987 stock market crash, the co-op conversion market dominated Manhattan real estate. Sponsors converted their rental apartments to co-ops, while conversion to condos was relatively rare. The number of converted apartments that came online from 1984 to 1987 was staggering. Terminology like "insider pricing," "nonevict plans," "negative cash flow," "black book," and "red herring," among others, entered the vernacular.

Back then, "getting lucky" meant you were an insider rent-stabilized tenant in a building about to convert to co-op. Insider pricing was the purchase price offered to current tenants with a valid lease. In a nonevict plan, it was in the sponsor's interest to sell 15 percent of a building's apartments to insider tenants to have the conversion plan accepted by the attorney general. If accepted, the sponsor could then sell to outsiders, where most of the profit was made.

The disparity between insider and outsider pricing could be significant, but discounts for insider purchasers diminished as the decade went on. Discounts of 75 percent or more were not unusual in the early 1980s. Insider pricing was often viewed as retirement plans for elderly tenants, who could sell their insider rights to outsiders for an enormous markup. But by the time the real-estate market faltered after 1987, discounts had shrunk to 10 to 15 percent. These discounts were still a bargain, but hardly the windfall seen earlier. In fact, values tended to be higher within conversions in the early 1980s than those of the late 1980s and early 1990s.

Many large rental developments like Tudor City in the East 40s and Lincoln Towers in the West 60s converted to co-ops during this period. The sponsors used the income from the sale of outsider apartments to cover the "negative cash flow" of the apartments whose tenants did not purchase. These rent-stabilized leases often did not cover the monthly maintenance charges allocated to the apartments, thus the "negative cash flow." If the outsider sales stopped, the sponsor's cash position was drained and the sponsor would eventually be in default. That is exactly what happened as the economy stalled and the real-estate market softened. The subsequent sponsor units that came online were not absorbed until the mid-1990s.

Most rental housing in established residential neighborhoods that was financially appealing to converters has already been converted. Lack of inventory has been key to rising housing prices in the sub-million-dollar apartment market. However, in the era of multimillion dollar apartments constructed or converted during the recent boom, 70 percent of all apartments sold in 2004 were priced under $1,000,000. Most of these sales were not "conversions." With the rising cost of acquisitions forcing new development into new markets and other boroughs, the supply of housing does not appear likely to change in the near future for markets that were so readily served in the 1980s.

Fast-forward to 2005 when the term "conversion" now implies condo, gut rehab, luxury, lifestyle amenities, new. Most conversion activity has been Downtown in the loft district and the Uptown apartment market. Due to the decline of the manufacturing base, the City of New York has changed zoning in certain areas to encourage residential conversion. Listing inventory is tight and conversions generally sell out in less than six months. Conversions today are typically commercial or manufacturing-to-residential gut rehabs rather than residential rental-to-residential nonevict plans. Numerous hotel operators, despite enjoying high occupancy levels due to the rise in tourism, have begun to consider condo conversions because the return is often even better. The Plaza Hotel is a recent example of this phenomenon.

Conversions today often set a new high in a neighborhood, and the value is substantiated by the amenities of the building and the apartment. Today's apartment mix favors larger apartments. The 1980s saw a disproportionate amount of studio and one-bedroom apartments while conversions today combine smaller existing apartments to achieve larger units.

Conversions are quite different today than they were twenty years ago. They have evolved from small co-op apartments in former rental buildings to large gut-renovated condo units in commercial or manufacturing buildings. They have moved from retirement plans to lifestyle plans. So when you answer the proverbial question, "Heard of any new conversions lately?" you've now been converted.

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