

Real Estate Forefront

Emerging Developments in the NYC Marketplace, #9

The Other Development on the Upper West Side

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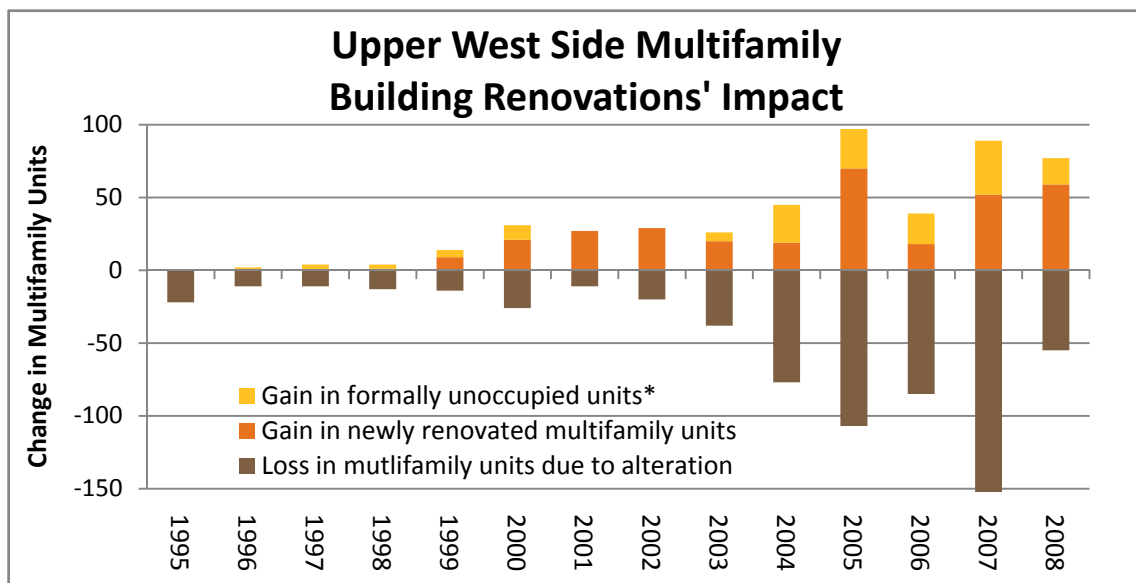
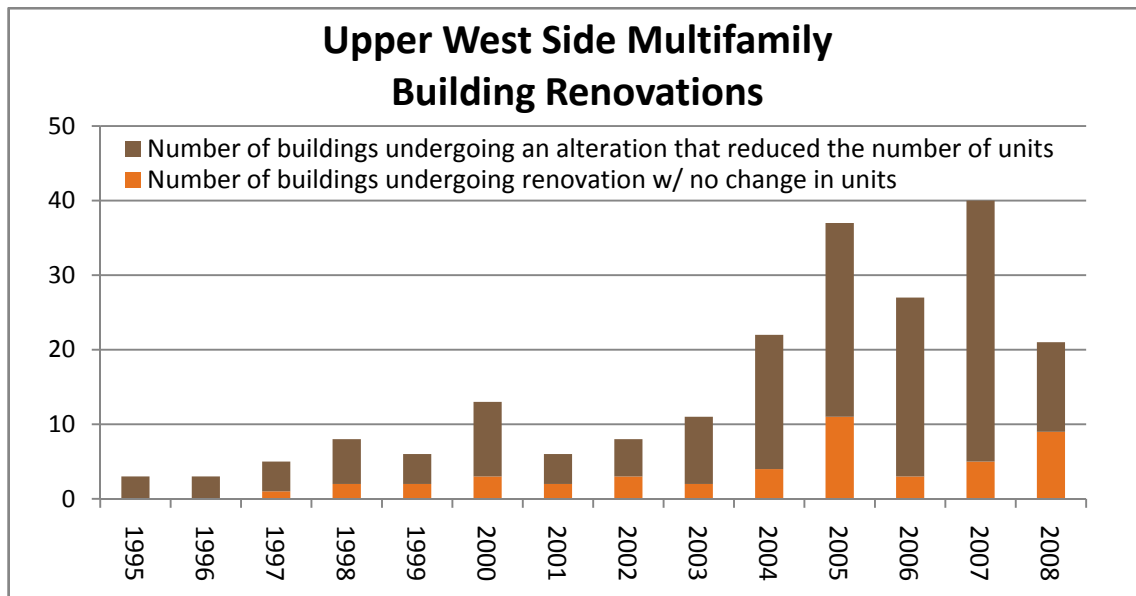
Like most of Manhattan, the Upper West Side enjoyed a surge in development interest over the last nine years. Most of the developers in this neighborhood have recognizable names like Trump, Extell and Chetrit. But other developers have poured millions of dollars into their own private investment properties and in the process have renovated as many as 230 multifamily buildings on the Upper West Side that have affected more than 1,400 housing units. Eastern Consolidated reviewed 380 transactions over the last decade and researched the respective permits filed to determine how many of these quieter developers invested in a renovation or alteration and what affect this investment had on the number of housing units on the Upper West Side.

Nearly all of the multifamily buildings reviewed were brownstones, an undeniably rare asset class in New York City. Many of these properties had been converted to rooming houses after World War II and were in such disrepair that they were uninhabited.

Of the 380 transactions, 230 were of buildings that underwent a renovation of some kind. Of these 230 owners, 72 converted their properties to a single family residences, 96 converted theirs and ultimately reduced the number of units (from six- to 18-unit buildings, to two to six-unit buildings); and 55 renovated their buildings but did not change the number of units. The remaining properties were converted to churches or schools.

These 230 buildings at one time accounted for as many as 1,430 housing units, many of which were likely unoccupied. Still, the net number of housing units of the buildings reviewed was reduced to 756 post conversion or renovation, yielding a net loss of as many as 668 housing units on the Upper West Side. Not only were many of these units vacant, but other new development in the neighborhood more than made up for this loss of housing¹. That said, it is safe to assume that the lost housing included many rent-regulated units.

¹ New development on the Upper West Side has added more than 7,000 housing units since 1997. This includes as many as 2,500 units in the Trump Riverside buildings alone. Source: Eastern Consolidated



*Those properties that are assumed to have created new units are buildings classified as C5: converted dwelling or rooming house
 Source: Eastern Consolidate, Property Shark, CoStar, NYC Department of Buildings

Historically, prospective buyers interested in buying an income-producing property that they plan to partially occupy preferred to buy a multifamily without rent-regulated units because

evicting tenants is notoriously troublesome. Moreover, most owners must go through an extensive approval process with either the Landmarks Preservation Commission or other City agency when filing building plans since most of these blocks fall into a historic district (see below).

Still, despite the hurdles, many have converted their properties; and since 2007, the law is on their side. In a landmark case decided in February 2007, *Pultz v. Economakis*, the Supreme Court of New York County ruled that “an owner does not require DHCR (Department of Housing and Community Renewal) approval to seek possession of all rent stabilized units in a building for use by owner and/or owner’s immediate family as their primary residence within the City of New York.” In effect, this means that an owner may seek possession of an entire rent stabilized building for their own use and occupancy without getting the court’s approval. New owners must retain rent-controlled and/or rent-stabilized tenants in units that they do not plan to occupy.

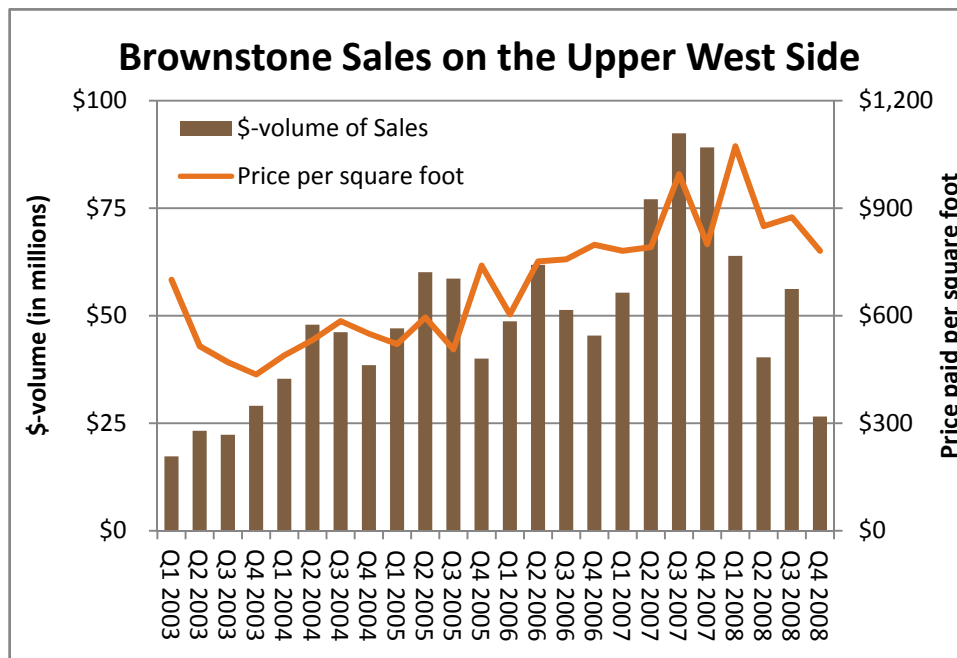
However, in February 2009, the New York State Assembly took a first step in revising rent control laws to favor tenants over landlords. This proposed legislation requires Senate approval and appears difficult to administer, but the provisions passed are designed to restrain increases on rent-regulated apartments and return to regulation thousands of units that were converted to market rate in recent years. While the legislation clearly favors tenants over landlords, the New York Times claims that “few are predicting that the legislation will pass easily.”

For investors, owning a brownstone instead of a series of condominiums or other rental units has a number of benefits including lower maintenance costs associated with common areas, staff and an elevator. But converting a brownstone with four or more units to one with three or fewer units could change the building’s classification which would likely change its tax status from Class 2 that has a tax rate of 11.928% to Class 1 that has a tax rate of 15.434%. A number of the brownstones reviewed in this analysis listed a building class of C5: converted dwelling or rooming house, which is still in tax class 2 so there is no increase in tax rate. Any conversion requires filing for a new certificate of occupancy that would list the change in units.

More recently, many building owners also restored the aging exterior with new clay and moldings. These owners also built in new elegant stoops where either none had existed prior or it had been removed. Stoop replacement alone requires significant approval processing not only because of the change in architecture, but it must comply with the Americans with Disability Act and be registered with the Department of Transportation.

Most of the Upper West Side brownstones were built at the turn of the last century, feature high ceilings, crown molding and other architecturally-pleasing amenities. After the Great Depression and World War II, a number of brownstones were converted from single family or three-family buildings into boarding houses with six- to 18- unit properties. These conversions took out considerable space for a common stairwell, broke up the floor space and generally removed most if not all of the properties' charm.

The recent interest in converting these buildings back into fewer units parallels the rest of Manhattan's real estate frenzy, and the prices paid for these buildings track the inflated prices in the rest of Manhattan's commercial and residential markets as well. Moreover, as the chart shows below, while the volume of sales dropped off in the 4th quarter, the average price paid per square foot fell only slightly to \$780 per square foot from \$870 in the 3rd quarter. These represent closed sales that may have been contracted before September.



But the Upper West Side brownstones are iconic and are only rivaled by those in Park Slope and Brooklyn Heights. Not coincidentally, most of the blocks dominated by brownstone buildings are landmarked: the Central Park West Historic District runs from West 62nd to West 96th

Streets and then generally protrudes west in a semi-circle pattern, with the widest stretch extending just west of Amsterdam Avenue. A smaller Riverside-West End Avenue district encompasses the buildings along Riverside Drive from 85th to 95th Streets, and over to West End Avenue. Any alteration requires approval from the Landmarks Commission to maintain the building's heritage.

No one disputes the ageless charm of the Upper West Side's brownstones or the motivation for owners to have a home of their own with a backyard garden, all while avoiding the high maintenance costs of condominiums. Still, with the renovation costs, labyrinth of approvals, registry of rents with the DHCR and the hassle of clearing out tenants, it is amazing that 230 investors took the plunge over the last 15 years. A handful of brownstones sold this past summer for more than \$1,200 per square foot, which is in line with condo and coop prices but still represents a premium over similar properties sold a year ago. With the addition of new developments on the Upper West Side coming in the next few years and a definite correction in overall housing prices, it will be interesting to see how sales and further development in this segment of the market fare in the next few years.

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