FINANCIAL TIMES

April 8, 2020

New York luxury towers quake as coronavirus hits property market

Highly-leveraged developers struggle to sell units that can be priced above $50m

Several New York luxury developments are behind schedule because of the complexity of constructing a new generation of 'supertall' towers
Eduardo Munoz Alvarez/ Getty

Frances Katzen, one of New York's top luxury property brokers, had made a brisk start to the year. Then, coronavirus struck.

Within weeks, Ms Katzen saw $80m in sales evaporate as the pandemic put the city on lockdown. She has since regained $58m of those, including a $20m deal for a downtown penthouse that closed last week. But most buyers have fled.*

"The sky has fallen," said Ms Katzen, a residential broker at real estate agent Douglas Elliman. "We're there."

For New York developers, the dread is that a prolonged pandemic shutdown will not only scare away potential buyers but also prompt those who have already agreed deals — but not yet closed — to walk away. That, in turn, could cause lenders to seek recourse as developers fall behind sales milestones spelt out in their loan agreements.

"There's going to be a world of pain," one New York developer predicted.

"There's going to be a bunch of failed projects throughout New York" Kevin Maloney, a developer

Others remain hopeful the pandemic will soon subside and the market will rebound with pent-up vigour later in the year. That may be a question of science more than real estate.

In the meantime, many typical buyers of luxury condominiums have themselves been hit by the market turmoil. One prospective buyer of a co-operative apartment on the Upper East Side had their offer rejected in recent days, according to several brokers, after their finances no longer satisfied the co-op board's standards.

The virus hit just when New York's luxury market appeared to be regaining its footing after a years-long slowdown brought on by a glut of supply, as well as the disappearance of Chinese and Russian buyers due to geopolitical tensions.

Developers were also grappling with an increase last year in the city's so-called mansion tax, as well as other tax changes. Several lowered prices in the fourth quarter by 10 per cent or more and activity shot up in the new year.

The overall number of sales in Manhattan in February was 54 per cent higher than a year ago, making it the strongest February since 2010, according to Core, a New York realtor.

But with March came the lockdown to curb the spread of the virus, with New York halting all but essential construction projects. It also banned property viewings. That restriction was subsequently lifted — although few sales agents or appraisers have shown much inclination to risk their health in the midst of a pandemic. If they have the means, many have left the city for second homes elsewhere.

"You're not allowed to build and you're not allowed to sell . . . so things are going great!" one property executive quipped.

Garrett Derderian, the author of the Core report, said sentiment was likely to deteriorate as gross domestic product and jobless numbers are reported in April and May. Ultimately, he said, the duration of the crisis would determine the extent of the damage — both to the real economy and the city's property market: "It's the million-dollar question: How long will this last?"

A few opportunistic buyers have braved the market in hopes of nabbing a bargain, according to Ms Katzen. But many others stayed away, she acknowledged. "People follow people," she said, "and it doesn't feel good to be spending money right now."

For developers, who are typically highly leveraged, the inability to complete construction or close deals could spell doom: sales contracts typically contain clauses that allow buyers to walk away with their deposits if a building has not been finished by a certain deadline. That is known as the "outside date" and enforced by the New York state attorney-general.

Even before coronavirus, several New York luxury projects were years behind schedule. Shortages of labour and equipment created by the building boom slowed construction, as did the complexity of erecting the new generation of "supertall" towers that have reshaped the Manhattan skyline over the past decade.

One such project is 111 West 57th, where prices for the 46 units run from $17m to more than $50m. Barring an extension, its outside date is weeks away, according to people briefed on the matter.

"Just about any luxury condo in New York — whether it's complete or almost complete or partly complete — it's in the same boat right now: it's frozen," said Kevin Maloney, whose Property Markets Group is one of 111 West 57th's developers.

Mr Maloney, a veteran developer, has navigated the savings and loan crisis of the late 1980s and early 1990s, the September 11 terror attacks and the 2008 financial crisis, among other market shocks. He believes that buyers, developers and lenders will eventually have to find common ground — but only after the full extent of the crisis has become clearer.

Even so, Mr Maloney predicted there would be lasting damage: “There’s going to be a bunch of failed projects throughout New York.”

Just down the street from 111 West 57th is another supertall known as Central Park Tower that represents one of the city’s biggest luxury property bets. The tower boasts 179 units, which its developer, Extell Development, was struggling to sell even before the crisis, according to brokers.

Extell declined to comment on the pace of sales. Last week, it made a subtle, but possibly telling, move when it published some listings for the building on its website. Typically, such high-priced sales are handled privately.

“They’re getting desperate,” a broker said.