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## **Tenants are winners in Manhattan's oversupplied luxury home market**

*Developers offer 'rent-to-buy' deals with cash-back terms*



*A view of One World Trade Center and the Hudson River: developers are struggling to shift a backlog of luxury homes © Getty Images*

A year ago, shortly after the arrival of their second child, Lisa and her husband started searching for a larger home. The growing family — Lisa works in finance and her husband in hospitality — rented in Tribeca and were looking for a place nearby, but Manhattan's rapidly falling prices meant they were reluctant to buy.

Finding the right rental, however, proved difficult. "We were looking for seven or eight months: it was hard to find an apartment downtown that was large enough, with good amenities, at a decent price point since rents are so high. We kept extending our old lease from month to month," says Lisa, who did not want to give her surname.

Then they found out about a new deal being offered at a luxury condo building near the World Trade Center. The couple could rent a brand-new apartment at One Hundred Barclay and, if they decided they wanted to buy it within a year, they would get 50 per cent of the rent paid reimbursed. If they bought it within the first six months, they would get 75 per cent of it back.

"I was completely shocked from a financial point of view — in a good way — when we found it," she says. The couple pays \$18,000 a month to rent a three-bedroom apartment on a year-long contract, which Lisa

says is about market rate for the area. But by renting directly from the developer, she saved the broker's fee, typically 15 per cent of the first year's rent.

Lisa says she is in negotiation with the developer, Magnum Real Estate, about what the price of the apartment might be if she were to buy it. Although she still has not decided whether she will buy, she says she sees it as a downpayment on the home should she decide to — and because she is not obliged to purchase, she is protected if prices fall.

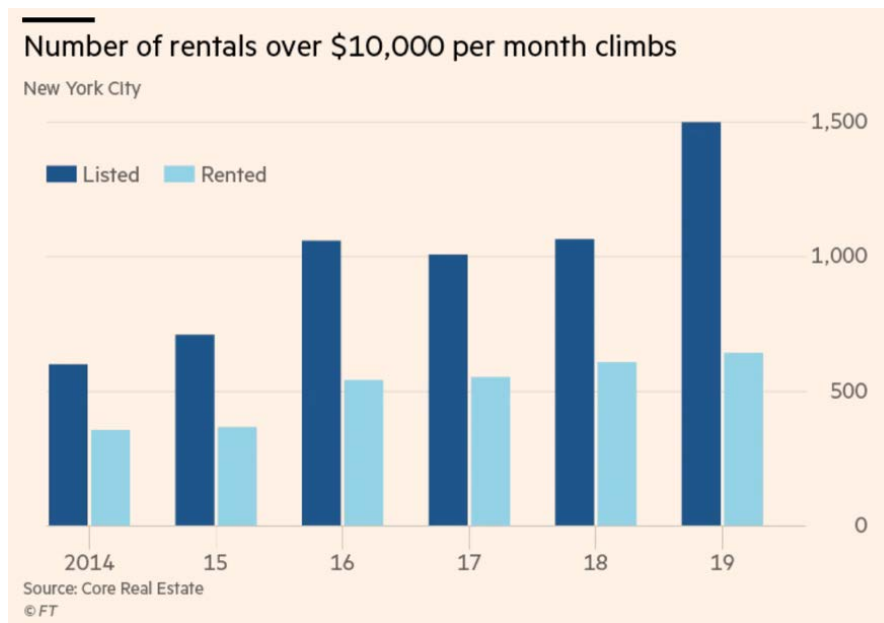
“Having the opportunity to try out a high-end condo before you buy it is definitely a rarity,” she says.



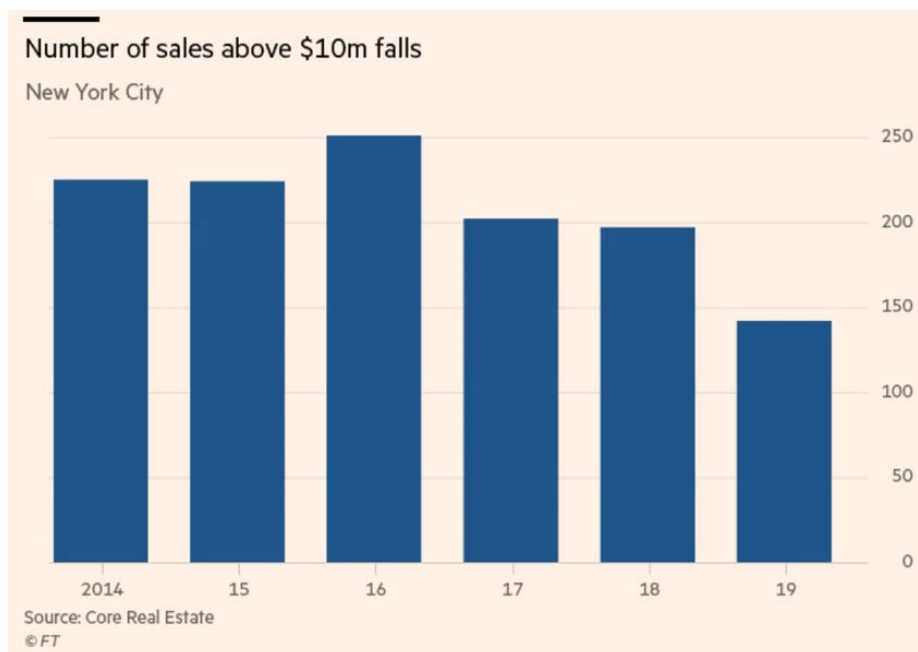
*Condo at One Hundred Barclay*

While still unusual, Manhattan developers are increasingly offering “rent-to-buy” programmes. Many are struggling to shift the backlog of luxury homes that has built up in the city since 2016, as a result of overbuilding, tax changes and a sharp decline in overseas buyers.

“The approach has been adopted by several developers as of late,” says Garrett Derderian of Core, a New York-based real-estate agent. While it provides an income from a unit that would otherwise be standing empty, it means having to cut the sale price if the renter decides not to buy, he says. “Buyers looking at previously rented units will undoubtedly have more negotiating power when it comes to the final sale price. The unit would not carry the same cache as an unlive-in new home.”



According to Core, the number of homes sold for more than \$10m has dropped 36 per cent in the past three years, from 236 in the year to December 2016, to 152 in the same period this year. The median sale price of the most expensive 10 per cent of Manhattan apartments fell by 17 per cent in the year to September, compared with the same period a year before, according to Douglas Elliman real estate.



Anticipating further price falls, many top-end buyers are opting to rent. The number of homes rented for more than \$10,000 a month has increased from 540 in 2016 to 641 for the year to November, according to Core.

At 196 Orchard Street, another new development involving Magnum Real Estate, the same rent-to-buy terms as One Hundred Barclay are on offer. One Manhattan Square, an 815-unit development on the

Lower East Side, also offers a rent-to-buy scheme. The developer, Extell, notes on its website: “Should you purchase your residence within 12 months, Extell will credit a full year’s rent towards your purchase price.”



*One Manhattan Square © Extell Development Company/Evan Joseph Images*

At Brooklyn Point, another Extell project, buyers who sign their contracts before the end of December will have all their service charges and utility bills paid for by the developers for three years if buying a one-bedroom apartment, and for five years if buying a two- or three-bedroom apartment. The development also benefits from reduced property taxes, which are known as tax abatements.

Still, price cuts are common. In the Carlyle building on E 76 St, Brown Harris Stevens is marketing a three-bedroom co-op apartment for \$10m, \$4m less than when it was listed in July. Nearby, on E 75 St, Douglas Elliman is selling a five-bedroom penthouse in Stuart Duncan House for \$23m, a \$6.5m discount from its listing in March.



*The penthouse in Stuart Duncan House*

Since the rent-to-buy programme at One Hundred Barclay was launched in May, 20 people have signed up, says Jordan Brill of Magnum Real Estate Group, although he declined to say how many homes had been sold in this time. He says Magnum will also cover the increase in Manhattan's mansion tax and transfer taxes that began in July for outright sales, and may do so for rent-to-buy homes. Currently on the rent-to-buy scheme, the developer is offering a four-bedroom apartment with a guide price of \$5.45m, for \$20,850 a month.

With her family installed in its new rental home, Lisa says she is in no rush to exercise her purchase option. True, the family is settled and her son is going on play dates with classmates who also live in the building, but she suspects the developer will make the rent-to-buy option available for a second year. "It's hard to imagine they would take a hardball stance," she says. "We're still on the fence about whether to rent or buy."