

# CRAIN'S

NEW YORK BUSINESS

January 31, 2016

## **Luxury Apartment Flippers are Getting Left Flat on Their Backs**

*An overabundance of condos without buyers could mean the end of easy money for resellers*



*Well-heeled investors have made fast money by buying early in new condominiums.*

In March 2014, a JP Morgan Chase managing director named Leslie Perkins paid \$5 million for an Upper East Side condominium at 141 E. 88th St. Almost exactly a year later, she sold it for \$6.5 million—a 30% return before taxes and fees.

Perkins, who could not be reached to comment for this story, is a type of well-heeled New York City investor who has made fast money in recent years by buying apartments in new condominiums, in some cases so early on that units hadn't even hit the market. Because the attorney general's office does not sign off on new condominium offerings or conversions until 15% of a development's apartments are in contract, developers tend to start selling units at a discount. Investors willing to take a risk on a building not yet completed, are there to pounce.

"There is a herd mentality in real estate," said Leonard Steinberg, president of residential brokerage Compass. "And if someone is going to support a building early on, there has to be some incentive or some reward."

In 2015, the best apartment flippers saw seven-figure gains within 18 months of buying their units, according to data compiled by listings website CityRealty. Among them were Robert and Kathleen Kaswell, founder of a real estate firm and a former CEO of Nine West Group, respectively. The husband and wife profited more than 50% on their unit in Walker Tower, located at 212 W. 18th St. in Chelsea.

After closing on the 17th-floor apartment in December 2013, they sold it for \$10.7 million to Andrew Liveris, the chief executive of Dow Chemical, in February 2015. During the same time period, Dow Chemical stock rose by a modest 4%—which illustrates why this particular real estate play can be so attractive.

"Whether [my clients] could retire or make that their business I don't always know," said Bruce Cohen, a partner at real estate law firm Cohen & Frankel who puts together contracts for condo buyers. "But there are some who have made boatloads of money."

But the most lucrative flips of 2015 may be some of the last. Manhattan sales data show that quick resales are becoming less profitable. Returns fell by half in the past year, to an average of 15%. And real estate experts believe that as more luxury condos in new towers come onto the market, supply will far outstrip demand.

### ***'Everybody's retirement plan'***

A flip isn't defined by an exact time period, but most brokers would consider it buying and selling for a profit within a year or two (the legal definition technically refers to a much rarer occurrence of reselling a signed contract before the deal has closed). Friends and family members of developers, along with real estate brokers and savvy investors, have been flipping for decades.

"In the '80s, this was everybody's retirement plan," said Jonathan Miller, head of appraisal firm Miller Samuel.

What makes for a good flip varies. The most common explanation for big deals is the simplest: Developers discount some units by as much 30% to entice early buyers. In exchange, builders get something even more valuable.



*Jonathan Ostrow, the founder of website MicControl.com, closed on a \$2.8 million apartment in HFZ Capital's One Madison in November 2014 and resold it just three months later for a 50% gain*

New York State is regulated by a special office under the state attorney general called the Real Estate Finance Bureau. Before developers can start signing contracts, bureau staffers must vet highly detailed project plans. Vornado Realty Trust, for example, submitted 554 pages for its luxury tower at 220 Central Park South. The plans disclosed everything from how the condo board will function to the offering price of every unit in the building.

Once 15% of the apartments are in contract and the bureau declares a new building plan effective, developers typically begin to jack up prices to discourage potential buyers from waiting too long to sign a contract. At 220 Central Park South last year, Vornado raised prices by a collective \$659 million over seven months, according to records from the real estate bureau.

These price gains can create instant equity for early buyers, who can then cash out by reselling their units. It is too soon to know whether early 220 Central Park South buyers will flip, but Vornado announced last year it had sold \$1.1 billion worth of apartments without even opening its sales office to the public.

"Early on, the [developer] and the broker are [often] offering low-hanging fruit," said Nancy Packes, who runs a namesake real estate consulting firm.

Typically, smaller units on the lower floors, which net the lowest profit anyway, are the ones that are underpriced. Penthouses and more valuable offerings are held longer until prices climb. Of the 10 biggest Manhattan flips in 2015, three were units purchased directly from the developer below the 10th floor, according to data collected by CityRealty.

Most developers write clauses into their contracts forbidding the buyer to flip within a year of closing, to avoid competition.

"If a developer has nine three-bedroom apartments for sale, it's not good if you're out there trying to flip a three-bedroom as well," said Andrew Heiberger, founder of brokerage Town Residential.

Developer Steve Witkoff, on the other hand, allowed buyers to resell units before they had even closed on their contracts at his West Village development 150 Charles—and then took a cut of the profits.

### ***Last year's winners***

The flippers of 2015 tended to be successful entrepreneurs or finance professionals. In other words: investors with cash.

Dax DaSilva is a Canadian tech entrepreneur who co-founded Lightspeed, a company that provides point-of-sale systems for small businesses. In March 2014, a trust registered in his name closed on an apartment in Walker Tower for \$4.6 million; 18 months later, the trust sold it for \$7.7 million.



*Joseph Sitt, the chief executive of Thor Equities, more than doubled his money last month by selling a SoHo retail co-op 138 Greene St.*

Jonathan Ostrow, the founder of website MicControl.com, closed on a \$2.8 million apartment in HFZ Capital's One Madison in November 2014 and resold it just three months later for a 50% gain. In many cases, these flippers actually signed a contract months—and sometimes more than a year, before actually closing.

Daniel Collin, co-chief executive of private-equity firm Monomoy Capital Partners, already owned a unit on the seventh floor of 415 Greenwich in March 2015 with his wife, Lindsey, when they purchased the building's penthouse for \$7.7 million. Nine months later, they sold it for \$11.5 million.

Location and timing are also key to these flips' success. Walker Tower, Verizon's former Art Deco building along West 18th Street in Chelsea, is one of a number of projects, including One Madison and 150 Charles, where several flips have transpired.

In this case, JDS Development Group launched the Walker Tower project in 2012, which was so early in the condo boom that its units were precious commodities. Some of the apartments there increased in value so rapidly because of high demand that early buyers who were planning to live in the units were enticed to flip instead.

The Kaswells inked their contract before the attorney general's office fully signed off on the project's plans. By the time they closed and began prepping their move in 2014, their needs had changed, and they discussed the unit's new value with residential brokerage Core.

"Eyebrows were raised," said the Core agent, Christian Rogers. The couple made \$3.77 million.

### Uncertain Future

The biggest flips typically happen at the outset of a boom, when prices increase rapidly, noted Donna Olshan, head of brokerage and consulting firm Olshan Realty. "I don't think you can count on this as the model now," said Olshan. Many real estate experts believe that the high-end condo market is being saturated with units, which is leading to longer sale times and smaller price gains.

"Developers will probably still prime the pump," said Miller, whose firm analyzed Manhattan apartment flips over the past two years for *Crain's*. "But the market might not be able to support two, three or four price increases—meaning the initial investor won't get the same instant equity."

Miller's data show that in the past two years, about 240 apartments were sold in Manhattan that had been purchased only a year before. These units cost between \$1 million and \$2 million; the median price for a Manhattan home in the fourth quarter of 2015 was \$1 million. Flippers averaged at least a 20% profit. That is easily enough to cover broker fees and taxes that typically make up 10% of an apartment's price or more, if an apartment is flipped within a year and is subject to short-term capital-gains taxes. But by April 2015, average gains had fallen below 20%, and Miller doesn't think they will rise above that mark any time soon.

That doesn't necessarily mean that buying early in new condo developments has become a bad investment, Compass' Steinberg said. It just means that it won't be a quick one.

"Markets don't go up indefinitely, but in big cities like London and New York, they recover very quickly," he said. "If you have the ability to ride out a correction and can rely on renting the unit out, you will more than likely make money."

### Biggest Flips in Manhattan

Building	Address	Purchased	Paid
Walker Tower	212 W. 18th St., 17D	12/23/13	\$6,975,013
TriBeCa Summit	415 Greenwich St., PH-B	3/9/15	\$7,744,000
Walker Tower	212 W. 18th St., 9E	3/24/14	\$4,582,125
508 W. 24th S	508 W. 24th St., 5NS	11/20/14	\$9,571,550
Philip House	141 E. 88th St., 7F	3/12/14	\$4,995,169
One Madison	23 E. 22nd St., 14A	11/24/14	\$2,851,100
One57	157 W. 57th St., 44B	4/24/14	\$7,029,425
161 Hudson St.	161 Hudson St., 2A	7/3/13	\$3,025,000
One Madison	23 E. 22nd St., 14B	12/11/14	\$3,207,488
Millennium Tower Residences	30 West Street, PH2F	5/29/2014	\$3,032,505