THE REAL DEAL

How To Do Condos In 2008

Experts share their best tips for survival

The Centurion

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By Marc Ferris

Given the credit crunch and the rash of new units coming online in Manhattan, the coming year may cause a shakeout among condo developers.

"It's going to be survival of the fittest," said Rob Kaliner, president of Ascend Group, a Manhattan developer. "Only those with the stomach to press on will make it."

Demand will likely remain strong, but developers are rushing to get their projects in the ground before the 421-a abatement runs out in July.

"That will certainly create a blip in the supply chain," said Roy Stillman, president of Stillman Development International, which develops condos in Manhattan and elsewhere. "In Manhattan, it's a modest threat, although there's more danger in fringe neighborhoods."

Even though the tax credit runs out soon, removing a key selling point for many buildings, it will do little to curb the appetite for high-end real estate, said Wayne Heicklen, an attorney at Pryor Cashman who personally invests in condos.

Though land prices continue to spiral upward, and rising fixed costs erode already thin margins, there are plenty of ways to survive and thrive in Manhattan's condo market over the next year. Here are five tips from experts:

1. Go with what you know.

Sticking to the tried-and-true never hurt anyone in real estate, said Tim Crowley, managing director at FLAnk, a boutique Manhattan condo developer. His strategy: find prime locations in established neighborhoods.

"The numbers are strong in locations that matter," Crowley said, pointing to two of his firm's new boutique luxury condos at 441 East 57th Street in Sutton Place and 385 West 12th Street in the West Village. The company also plans to convert the West Village Nursing Home at Abingdon Square into condos.

"I'm certainly fearful of the credit markets, so I'd be nervous if I were holding 350 apartments in the Financial District, Manhattanville, Central Park North or the outer boroughs," he said.

Appealing to the upper echelon – either the local monied set or international investors taking advantage of the weak dollar – is also a good play: Stillman and his banker were shocked when a scion of Long Island's North Shore wrote a check for $11.2 million for two apartments at the Centurion, a new condo he developed near the Plaza Hotel.

"Construction costs are about the same in Manhattan," said Crowley, "so it makes more sense to buy land at $700 a square foot in the West Village, which has a more historically solid residential base, than to pay $500 per square foot in the Financial District, which is five to seven years away from supporting a residential infrastructure."

Prices for new construction in the financial District hover around $1,200 compared to $1,800 in the West Village. "We get a better spread; people say you're crazy to pay big numbers for land, but you're getting big numbers for it," he said.

2. Hitch your wagon to a fast horse.

In addition to being one of the first new residential buildings in the Plaza District, which centers around the Plaza Hotel, in the last few decades, the Centurion is the first ground-up condo in Manhattan to be designed by Pei Partnership Architects.

Stillman landed I.M. Pei and his son, Sandi, in part because he had worked with Philip Johnson in Florida, but developers seeking to work with a legendary architect must remember that "they've already accomplished great things and they've earned their place in architectural history, so even if you can write a check, the main thing that concerns them is that their reputation remains safe," Stillman said.

3. Mind the details.

Though few buildings are struggling, Drew Glick, vice president at Prudential Douglas Elliman, said the glut of product hurts developers who cut corners.

"The trend now is toward high-concept designs," he said. "If developers put up a run-of-the-mill building with unappealing finishes, they will have a problem getting the prices they'd like, because if there are flaws, or the closets aren't placed right, buyers will move on."

Buyers are becoming more sophisticated. "More than ever, purchasers are paying more attention to appliance packages and fixtures than they are to the amenities," said Heicklen. "They want the money going into the apartments; no one is talking about movie theaters in the lobby anymore, but they are asking about Waterworks fixtures as opposed to something of less quality."

Kaliner attempted to perfectly situate his latest projects, which include 305 East 85th Street, 425 East 13th Street, and 133 West 22nd Street. "It really pays to become attuned to what the market demands," he said.

His family-friendly condo at 305 East 85th Street features expansive floor plans, for instance, a trend becoming more prevalent as buyers become leery of cramped spaces.

Stillman outlined his philosophy with what he calls the 12 Cherry Theory. "Having just three cherries in a row won't win you a jackpot when it comes to putting up a high-end building in Manhattan, which is the most complicated thing in the world short of putting the space shuttle in the sky," he said.

"There are thousands of decisions that must be made correctly, hence the '12 cherries' – which includes everything from having a successful location, a good architect, quality design, good timing, color sensibilities, emotional impact and impeccable materials and assembly," he said.

"Nuances are critical; if you can't get everything correct, you can have all the I.M. Pei's in the world on board, but if it's the wrong building, no one is going to buy."

4. Put your money in

Tight credit could be a problem for some developers on the front and back ends of a project. Developers will be better able to withstand the crunch if they put more of their own money into their projects, although it increases their risk and will lead to a thinning out of developers, said Kaliner.

Even after a project is completed, there is still uncertainty. "Malaise in the credit markets will be a serious impediment to transactions in certain geographic locations, like Long Island City and parts of Brooklyn, which are going to be disproportionately affected," said Stillman. "Projects associated with value-conscious purchasers and other groups seeking housing at the lower price points may be challenged by their ability to pay."

5. Keep it real.

"Most people don't realize it, but there are easier ways to make a buck than by building condos," claimed Crowley. "Committed developers do it because it's an avocation that channels a passion for the built environment. Margins are really pretty thin, so you have to enjoy it."

To be successful, he said, developers should realize that the “market’s willingness to swallow spin has been exhausted. Forget the advertising; what’s important is to develop thematically good projects and appeal to the highest end of the market. There are no real value plays anymore because you can’t get cheap dirt; everything is expensive now. If you’re looking to get a lot of condo for the buck, you should try Tulsa.”