

THE REAL DEAL

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New units sell Costco-style

Faced with looming loans, developers offer bulk deals



By Gabby Warshawer

Not so long ago, many New York City developers modeled their sales efforts on stores like Barneys, marketing luxury wares to consumers with nary a half-off sticker in sight.

Nowadays, however, builders might be taking their cues from businesses like Costco.

Last month, the sponsors of 20 Pine, a 413-unit condo conversion in the Financial District, put 80 of the building's unsold units on the market for \$63.7 million, according to the Web site Curbed.

The bulk price for the units, according to an advertisement reprinted on Curbed, represented only 51.5 percent of their current value of \$124 million.

Meanwhile, 22 units in a 40-unit condo in Williamsburg also hit the market last month.

The sales pitch for the units at 349 Metropolitan Avenue included the following description: "Newly built 40-unit elevator building was developed as a luxury condominium and is being offered as a bulk sale for investors. Eighteen units are currently under contract at an average price per square foot of \$720 and the developer can't close because the building is not finished. The developer is currently in default on his primary debt. Prospective purchasers can bid on the entire project and/or on the available units."

The above examples aren't the only ones. Faced with a stagnant market and looming loans, more and more developers are finding the notion of bulk condo sales attractive.

"When you can't sell retail, you sell wholesale," said Eric Anton, a principal at the investment services firm Eastern Consolidated.

Anton said early last month Eastern was working on a deal for the bulk sale of nearly 30 units in a Queens condo, where the prospective buyer was offering to purchase each of the units for a mere 50 percent of the last closed individual sale.

Anton noted that bulk sales are "ramping up" as loans become due. "You are going to see some banks force these deals," he noted. "They want their money."

From a lender's standpoint, bulk sales can be a "pragmatic" move, said Dan Fasulo, managing director of Real Capital Analytics, a research firm that focuses on the commercial market.

"The last thing a lender wants is to have the units back at this point," said Fasulo, who noted that attempts at bulk sales are beginning to be more commonplace. "How's the bank going to sell them?"

A developer's decision to try to bulk sell depends on a host of factors, including whether it makes sense for the developer to take a property rental or to wait out the downturn.

"It all depends on how much equity they have in the project," Fasulo said.

From a buyer's perspective, there's a lot to like about a bulk-condo purchase, according to Anton. "These are very straightforward deals," he said. "You can rent them or sell them and you have a management company already in place running the building. It's really easy."

Making the price tag attractive enough for prospective buyers in today's market may be the biggest challenge, said Naomi Shu, a senior associate at Marcus & Millichap who has worked on a number of bulk deals.

Shu has been marketing a package of six condos at a 10-unit, new-construction building near Union Square for several months, but she says the asking price the seller is looking for "isn't going to work."

Since there's "no condo market today unless you're talking about prime neighborhoods," Shu markets bulk deals nowadays in terms of the rental income they can generate for investors.

"I really have to look at the rental income," she said. "Investors have to do the numbers and say, 'What is the projected income?' It's like putting money in a CD — you get 3 to 4 percent — but many buyers want a much better return."

Other brokers note that uncertainty about the rental market gives some would-be investors pause.

"Some of the challenges are that in order to make the bulk sales work, one needs to know what the rental market will be in six, 12 and 24 months," said Ofer Cohen, the managing director of TerraCRG. Cohen was marketing 349 Metropolitan Avenue along with Peleg Neev, TerraCRG's director of distressed sales and syndications.

"We have represented a buyer in a bulk sale attempt of almost 100 units, the result of which will be known within a few weeks, which will give us some indication of where the market is," said Cohen.

"The reality, though, is that banks, developers and the market in general are in a wait-and-see mode, and that there are many components to the equation in order for the market as a whole to go in that direction."

Cohen added that many investors eyeing bulk buys are doing so with the intention of selling them as condos "if and when" the market rebounds.

"People are looking at it as a three- to five-year hold," he said. "They want to see return on the sale later. You cannot project these things."

"Everyone knows the rental market is weakening ... If the condo market comes back in four years, can they wait?"

Mark Zborovsky, who has specialized in bulk condo and co-op sales for more than two decades as the head of brokerage Mark Zborovsky & Company — he has been referred to in various media as "King of Blocks"— said such unknowns mean there aren't a huge number of new-construction bulk deals happening at the moment.

"At least for now, I don't see many deals happening," he said. "In many cases there is a price under which a developer cannot sell."

Zborovsky noted that while he was "very quietly" marketing the sale of two bulk packages at luxury condos in Manhattan and Queens, "I don't hold my breath, because the price they need to sell for is higher than what people are willing to buy for."

Zborovsky also noted that bulk sales are common in Florida, where the market is a "complete disaster," even for experienced developers.

"We didn't have an overbuilding like Florida. It's so difficult to buy a piece of land and get a permit here," he said.

"People who obtained a lot of financing are in trouble, but many New York developers are very experienced and very wealthy."

Zborovsky and other brokers said a wave of bulk sales in the city isn't unprecedented and was, in fact, a major trend during the market downturn of the early '90s.

"After the market stopped in the early '90s you had buildings all over the city that were only 50 percent co-op," said Fasulo of Real Capital Analytics. So many of the sponsors were stuck with blocks of units that some, he noted, sought to sell in bulk.

Zborovsky said that today's market is relatively good compared to the conditions that caused en-masse sales nearly two decades ago.

"In the '90s, the market went down so much that there were 80 and 90 percent discounts," said Zborovsky. "Right now, the market is bad but it's not a disaster.

"Back then, you could buy for pennies on the dollar. That was the market at its lowest. We're not in the same market."

For the time being, commercial brokers say that most bulk deals are "off market," or hush-hush. "You wouldn't want to go out to the world and say, 'Hey, I'm selling at a discount,'" said TerraCRG's Cohen.

Beyond that, "you don't want people to know that you're in trouble and can't pay your loans," said Fasulo.

Nevertheless, brokers say that bulk sales aren't necessarily a sign that a developer is waving the white flag.

"I don't think it's about desperation," said Cohen. "It depends where your bank is in the mix. The bigger guys are holding, at least for now.

"It's about, 'Are we in the management business? If not, do we want to just move on?'"