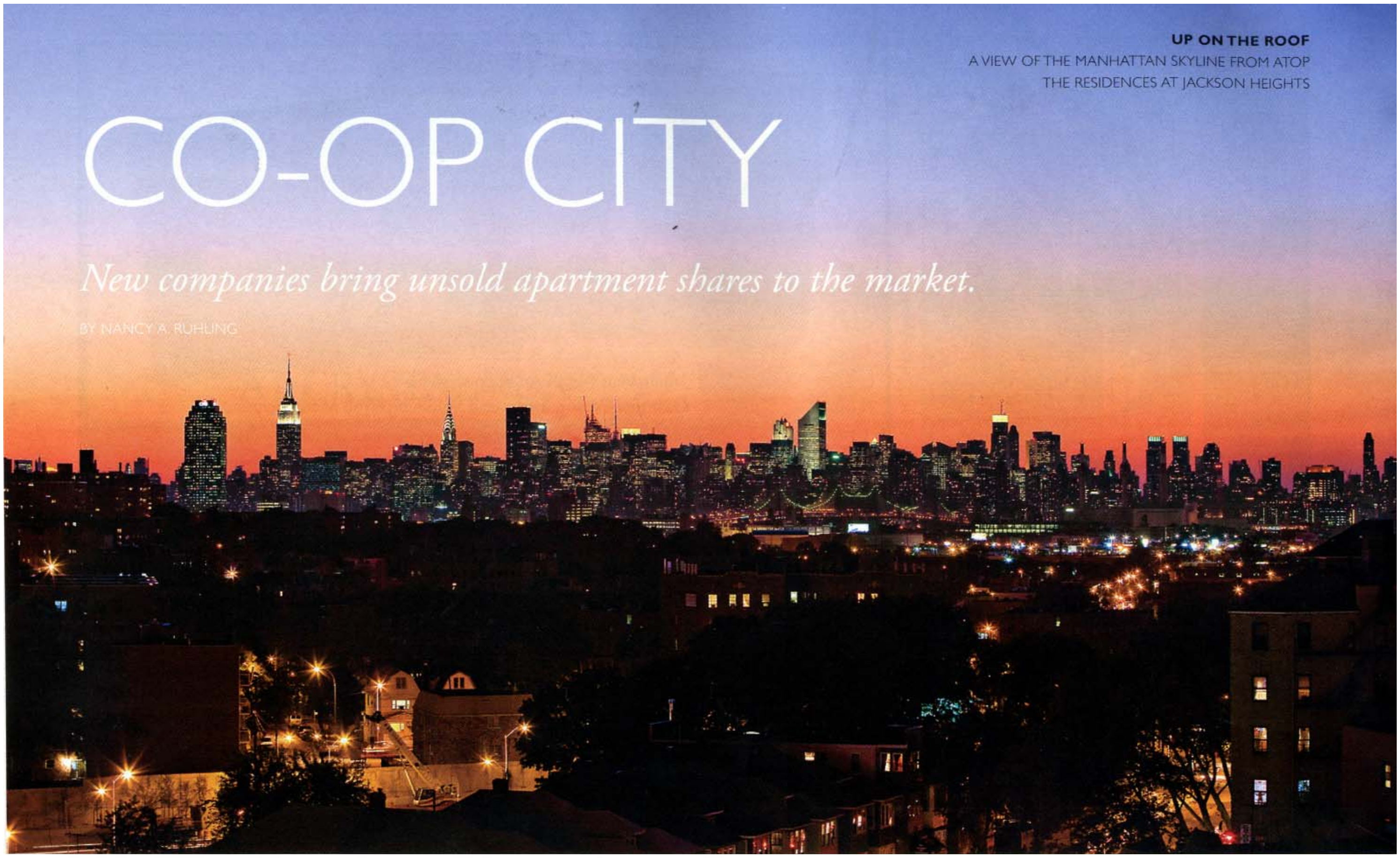
NEW YORK HOUSE

JUNE 2008



UP ON THE ROOF
A VIEW OF THE MANHATTAN SKYLINE FROM ATOP THE RESIDENCES AT JACKSON HEIGHTS

CO-OP CITY

New companies bring unsold apartment shares to the market.

BY NANCY A. RUHLING

In Manhattan, where it is estimated that some 75 percent of non-rental multifamily real estate is co-op (the rest are condos), it's not unusual to see ads that say "sponsor apartment" or "no board approval."

These words, which promise buyers a speedy, streamlined home purchase, signal that the property is an unsold share in a co-op. Many first-time buyers trying to navigate Manhattan's costly and complex market don't know the difference between a co-op and a condo, much less what an unsold share is. (A co-op is a residential unit in which the buyer owns a share in a corporation that owns the building, so an unsold share represents an available unit. A condo is owned by the buyer and has its own deed and tax bill. Co-ops and condos each have monthly maintenance charges.)

The selling of such unsold shares has been going on virtually since the city's wave of co-op conversions in the 1970s and 1980s, and today about a dozen companies specialize in finding, buying, and selling them. "Most buyers are completely unaware of this practice," says Amy Goldberg, director of sales for Shares of New York, a nine-year-old specialist in the field. "They are sort of under the radar."

The deals are win-wins for buyers and for the new holders of unsold shares. Brokers and buyers seal the deal quickly and the reselling buyers, who have full sponsor rights, get the units at good prices.

"There's no financial advantage to the end buyer except that you don't have to go through the co-op board," says Kenneth Horn, president of Alchemy Properties Inc., which was a leader in the field in the 1990s and still does deals. "But there is ease of purchase. And for the bulk buyer, there are profits as long as the market accelerates and he has the ability to carry them."

Judith Thorn, senior managing director of Warburg Realty Partnership, which has acted as a sales agent for the owners of unsold co-op shares, concurs, adding that "when these units are sold, they often are priced higher per square foot than those needing board approval, but they still cost less than condos. Many buyers are willing to pay the premium price because it offers the opportunity for entry into a building without having to go through the board process."

Another reason buyers find such deals attractive is because their assets are not subjected to scrutiny and the financial terms are more lenient. "You don't have to put 30 percent to 50 percent down," says Goldberg. "You can have up to 95 percent financing—all you need is a mortgage—and because you don't have to wait for the board, you can close on your unit within 30 days."

The flexible financing allows a variety of buyers, including young people and city newcomers, to get into the market quickly. "People who don't have big reserves or who have credit-history problems who would have trouble with the board can purchase," says Thorn. "Lots of parents are buying them for their children."

Most of the unsold shares initially came into existence when landlords converted to co-ops under a non-eviction plan. By allowing tenants in rent-controlled and rent-stabilized apartments to stay rather than forcing them to leave, owners only were required to sell 15 percent of the units in the building instead of 50 percent. These units or unsold shares remained rentals until the tenants vacated, sometimes decades later.

In many cases, the landlords found that it was financially viable to retain them as rentals. "It takes a lot of work and capital conversion to complete" the changeover, says Jenifer Steig, principal of The Cheshire Group, a real-estate investment company that has been buying unsold co-op shares for 14 years.

Other landlords over-leveraged themselves and faced foreclosure. And when the real estate market foundered in the 1990s, more found it advantageous to sell, typically putting tens and hundreds of unsold shares on the market at a time. "Now, the appreciation of the value of the units is so high that sponsor defaults aren't happening," says Alchemy's Kenneth Horn. "I see two to three deals a month from people looking to sell, but the buildings include rent-controlled, rent-stabilized and fair-market units."

And most of the deals that come along, adds Myles Horn, principal of MJH Birchwood, which recently bought 500 unsold shares in Manhattan, Queens, and Long Island from a single owner, are not large blocks.

The deals transfer full sponsor rights to the new holder of unsold shares; no board approval is required for the sale. The units are refurbished or renovated, put on the market and resold to individual buyers.

"The holder of unsold shares buys at a discount," says Myles Horn, who is not related

ABOVE, THE CHESHIRE GROUP IS OFFERING 54 RENOVATED UNITS AT THE PLAZA IN LAWRENCE, NEW YORK. SHOWN ARE A LIVING ROOM AND THE POOL COMPLEX

to Alchemy's Kenneth Horn. "The regulated units generally are sold at 30 cents to 40 cents on the dollar, and the vacant ones go for 60 cents to 70 cents on the dollar."

Myles Horn says that holders of unsold shares also profit because co-op board rules do not apply to them. "Among other things, we can sublet the units, keep them as rentals, combine units and even renovate without asking the board," he says.

Today, about a dozen companies specialize in the transactions. Shares of New York, for instance, is offering units at 150 West 87th Street, 55 West 95th Street, and 65 West 95th Street. "Our purpose is to breathe new life into the buildings and new amenities," Goldberg says. "We basically are reinventing the units."

Shares of New York's trio of Upper West Side prewar buildings, where one-, two-, and three-bedroom units are $577,500 to $675,000, feature larger units with updated kitchens and baths and renovated lobbies and hallways. The amenities, which range from live-in superintendents and fitness centers to children's play rooms and 24-hour lobby staffing, vary by building.

"We listened to the marketplace," Goldberg says, "and we also are giving owners the option of doing their own renovations. The original-condition apartments are priced lower."

The Cheshire Group is offering 54 renovated units at The Plaza in Lawrence, New York, for $407,000 to $835,000, and 101 co-ops at Quincy Park Avenue in the town of Mount Vernon for $93,600 to $212,900. "The units are all new and have new appliances," says Steig. "Even though it's not new construction, it's like new construction."

MJH Birchwood's unsold shares at Gramercy Park Towers, 205 Third Avenue between 17th and 18th Streets, are attracting a "tremendous amount of interest because there's no board approval needed, yet like-kind condos are priced 20 percent more per square foot," says Thorn.

As Myles Horn points out, his renovated units, which sell for more than the existing ones, "increase the value of all" in the building.

The bottom line on unsold co-op shares, adds Goldberg, is that "if time is money, we can save buyers time and money." ■