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Luxe condo slowdown isn't trickling down to middle market

Developers say units in $1M to $3M range are flying off the shelves

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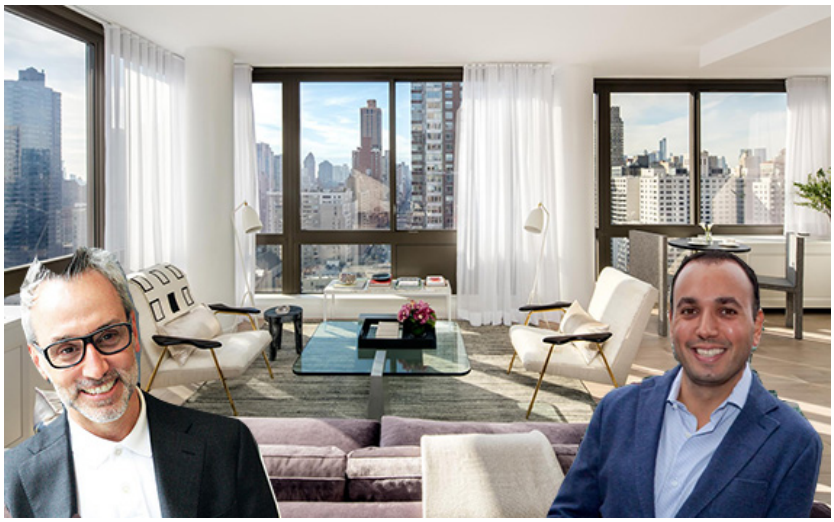

Leonard Steinberg, Ben Shaoul and 389 East 89th Street

Worries of a slowdown in demand for high-end condos trickling down to the middle of the New York City real estate market are entirely misplaced, as buyers continue to flock towards units in the $1 million to $4 million range, agents and developers told *The Real Deal*.

At 389 East 89th Street, Magnum Real Estate Group's new condo conversion on the Upper East Side, developer Ben Shaoul said sales have already far exceeded initial estimates at the 156-unit project.

The building, where units range in price from $880,000 to $3 million, is already on track to sell out before the end of the year, he said. (The projected sellout, per the offering plan filed with the New York Attorney General's Office is $261M.)

“The $1 million to $3 million market is very high velocity right now,” Shaoul told *TRD*, citing the lack of available citywide inventory at that price point. “I can’t tell you the amount of traffic we’ve had to this building.”

The same is true for the Luminaire, Shaoul’s new downtown project at 385 First Avenue, where units will be priced between $1.6 million and $5.25 million. Compass president Leonard Steinberg, whose firm is handling sales for Shaoul at the 103-unit building, said the developer has already received around 1,000 inquiries from prospective buyers despite having not yet launched sales.

And at 111 Murray Street, Steve Witkoff and Fisher Brothers’ Tribeca condo, where prices start at $2 million, sales have also been brisk, despite sluggishness on the high end of the market.

“We’re seven months in the market with 111 Murray and we sell our inventory at 7.5 percent a month. We haven’t given one dollar of discount below schedule A,” said Witkoff, speaking Tuesday at an event hosted by the 92Y.

In fact, appraiser Jonathan Miller said there has been absolutely “no sign” of the luxury market’s struggles spilling over into the $1 million to $4 million range, thanks to tight inventory.

“The most underserved market of them all is the $1 million to $4 million [range],” he noted.

The velocity in the middle-of the market is likely welcome news for lenders and developers, amid concern that buyers across all segments of the market would be spooked by a slowdown in demand for luxury homes.

Brokers said a few buyers have been skittish about pulling the trigger on apartments after reading headlines about a dip in the condo market.

Jordan Sachs, CEO of Noho-based residential brokerage Bold New York, recalled how one prospective buyer recently called off his search for a one-bedroom pied-à-terre priced up to $2 million, after receiving financial advice that he “absolutely needed to hold off from buying right now” and would be better served testing the market in another six months.

“I think that there is somewhat of a trickle-down effect happening from all the conversation we’re seeing about the high-end luxury market. It’s starting to play in the mindset of the $4 million-and-below purchaser,” Sachs told *TRD.*

It’s common for buyers to get a little antsy when there’s so much speculation in the market, but it doesn’t necessarily indicate a slowdown, Miller said.

“I think people love to brushstroke everything as one,” Miller said. “Any discussion of the market now usually begins with something like, ‘Yeah, I’m hearing the market is slowing down.’ And I go, ‘You mean the super-luxury new development space is slowing down.’”

Low levels of middle-market inventory, key to maintaining velocity in that segment of the market, aren't likely to go up dramatically anytime soon, either. With land prices still relatively high, it's still next to impossible to make that price point work from an economics perspective, experts said.

"The problem is the only way you can really [supply that market], in the context of new development, is either you bought the land 10 years ago or are converting a rental building to condo," Miller said.

Shaoul said he's only able to deliver prices starting at $1,300 a foot because he bought cheap. He acquired the property on 89th Street several years ago for just $800 a foot and has priced the units to sell quickly. Corcoran Sunshine is handling sales.

"Our business plan from the start was velocity," he said.

Another factor working in the favor of the middle market: Low interest rates.

"Those buyers who are buying right now are being very savvy," Steinberg said. "If the market goes down 10 percent but interest rates go up 1.5 percent, it's cheaper to buy now. The people who are buying now are capitalizing on the one thing that won't last forever, and that's low interest rates."

Danny Hedaya, president of Financial District-based brokerage Platinum Properties, agreed.

"Where interest rates are now, I'm advising buyers who are looking for longer-term plays to buy," he said. "Manhattan is a pretty resilient marketplace. Even if it does have a correction, I think buyers are still going to be able to capitalize on low interest rates.