Developers Cease to Offer Condo Incentives

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THREE months ago, when Wei Min Tan, a broker at Rutenberg Realty, negotiated a deal for a new $3 million three-bedroom condominium at the Aldyn on the Upper West Side, he was able to save his buyers $95,000 in transfer taxes and other costs, as well as to finagle a free storage space.

But now, Mr. Tan said: “I don’t know if I could get the same deal. Literally a month ago, the market turned, and there is now a feeding frenzy.”

The optimism that has washed over the New York real estate market this spring has swept up new developments in its wake. As recently as late last year, buyers could expect to negotiate with developers on price and closing costs like taxes and legal fees. But these incentives are rapidly drying up, buyers, brokers and developers say.

Lack of inventory is largely responsible for the trend. According to UrbanDigs, a Web site that tracks real estate data, in the 16 consecutive months between September 2010 and February 2012, the number of new condominiums, co-ops and town houses coming on the market in Manhattan shrank when compared with the same period the year prior. And since a short blip in February, that downward trajectory has resumed.

Last month, 1,624 listings came on the market, a drop of nearly 8 percent from April 2011 and a 21.5 percent decrease from April 2010.

At the same time, the pace of signed deals in Manhattan is the highest it has been since UrbanDigs began collecting data in 2008, said Noah Rosenblatt, the site’s founder. In April, for example, 1,164 contracts were signed, a 13.6 percent increase over the same period last year; in March, 1,213 contracts were signed, a jump of nearly 16 percent over March 2011.

“This story has been 18 months in the making,” Mr. Rosenblatt said. “When you have a surge in the number of new deals while at the same time supply is constrained, the result is a very strong market with bidding wars and a buying frenzy — call it an extreme spring fever, if you will.”

This winter, Isabelle Lambotte of Princeton, N.J., and her family were looking for an investment property and pied-à-terre in New York City. They settled on Chelsea, specifically a new condominium conversion at 422 West 20th Street.

“There were so many other people interested, it was crazy, with everyone placing offers,” Ms. Lambotte said, “so we wondered if the unit would even be available. We were told there was no flexibility, and honestly, we didn’t even think about negotiating.”

She bought a two-bedroom apartment for more than the asking price. She declined to reveal the amount she had paid because the deal has not closed, but two-bedrooms are listed for $1.075 million to $2.095 million, according to the building Web site.

At some new buildings, the tables have been completely turned: developers are raising prices. At two developments, Stribling Marketing & Associates has amended offering plans filed with the New York State attorney general's office, which oversees new condominiums, to reflect new, higher prices.

One of the two, a prewar conversion developed by the Rudin family at 130 West 12th Street, began marketing in November and has sold 41 of 42 condos. Before the sales office opened, said Steven Rutter, an executive vice president and managing director of Stribling Marketing, there was a waiting list of "a few hundred people, and once we opened, we were fully booked for weeks" giving tours.

None of the sales have involved any concessions, and all have been for the asking price or more, he said. "We are selling from a position of strength," was his assessment. A four-bedroom on the eighth floor, for example, was originally listed for $5.735 million; in March its price was raised by 6 percent to $6.1 million. It is now in contract, according to Streeteasy.

At the other development, 20 Henry Street, a two-building project in Brooklyn Heights that is more than 50 percent sold, sales have been averaging more than $1,000 a square foot, Mr. Rutter said. This compares with an average of $745 a square foot in the first quarter for new developments in the borough, according to data from Douglas Elliman.

Asking prices at the 38-unit development, a conversion of the 19th-century Peaks Mason Mints factory joined with a new condominium next door, range from $450,000, for a studio, to $2.895 million for a four-bedroom. Prices have been raised on various units, including a two-bedroom loft listed for $1.285 million after a 5 percent increase in March, Streeteasy says.

Incentives have also ended in many neighborhoods not considered the choicest in Manhattan or Brooklyn. Joelle Deroy and her family had lived in Manhattan for 20 years before returning to France about two and a half years ago. "We miss New York and wanted an investment property that could eventually become a pied-à-terre," said Ms. Deroy, an artist. She recently signed a contract for a studio at the Apex, a 44-unit condominium at 2300 Frederick Douglass Boulevard in Harlem, above the Aloft hotel.

"They were very firm about the price," said Fabienne Lecole, a senior vice president of Corcoran, which represented Ms. Deroy. "This is pretty new, especially in Harlem. I knew the apartments had been on the market for a while, so we were hoping to get some kind of negotiation. But all of a sudden the market accelerated and there were three offers on the unit, so we paid very close to asking price and were given zero incentives."

The deal has not yet closed, but studios in the building have gone into contract for $325,000 to $370,000, said Martin D. Brady, the vice president for sales of the Marketing Directors, which is representing the Apex.

“We signed nine contracts in April,” Mr. Brady said, “and two were for the full asking price, while the others were within 2 to 3 percent of the asking price.”

But the news for buyers is not all bad. It is still possible to find developments eager to offer incentives, particularly in less well-established neighborhoods.

At a 20-unit condominium development at 904 Pacific Street in Crown Heights, Brooklyn, the developer is offering to cover New York City and New York State transfer taxes. For example, the buyer of a one-bedroom apartment there at an asking price of $449,000 would save approximately $7,000.

At 534 West 42nd Street, an eight-unit loft building in the Far West Side, the developer is offering a free one-year membership to any gym in the neighborhood. “Because it is a loft building,” said Frances Katzen, a managing director of Prudential Douglas Elliman, “there is no room for amenities, so the developer decided to create this incentive since buyers were noting that other buildings in the neighborhood have gyms.”

At Rockwell Place, a 36-unit condominium development in Fort Greene, Brooklyn, the developer is offering minor upgrades, like wood flooring on the garden decks or custom sound systems, rather than price discounts. Developers often prefer to negotiate on upfront costs like taxes and brokerage fees, in large part because any price cut would set a benchmark for future sales. Other costs can be quietly negotiated on a per-deal basis that will not necessarily be publicly known.

“We don’t want to budge on asking prices,” said Andrew Barrocas, the chief executive of MNS, which is marketing the project. “But we are offering incentives to make buyers really feel like they are a getting a good deal.”

Brokers say the biggest factor in how much a developer is willing to negotiate is the number of units already in contract.

“I always say, ‘First in and last in get the best deals,’ ” said John Gomes, an executive vice president of Prudential Douglas Elliman. “You want to kick-start the project, and getting that first buyer can be a challenge, since no one wants to make the first move, so you may offer some incentives.

“And,” he said, “by the end of the project, when you just have one unit left, you often want to just finish up rather than hold out for a higher price.”

Landing the first few buyers is critical for new construction. Developers must sell 15 percent of the units before the state attorney general will declare the project active, meaning it is a fully functioning condominium and closings can begin.

Often, to reach this threshold, developers draw in buyers by negotiating on price, paying for closing costs and offering brokers commissions of 4 percent or higher rather than the traditional 3 percent. It can be especially difficult to reach this benchmark, because banks are reluctant to lend before a project is 50 percent sold — so developers have to hope for cash buyers or make deals that are not contingent on financing.

Once 50 percent is reached, Fannie Mae is usually willing to act as a lender, and other banks will also be more amenable to make loans.

“When you hit 50 percent to 60 percent sold, it opens up a whole new universe of buyers,” said Kenneth S. Horn, the president of Alchemy Properties, who is in the midst of selling condos at the Griffin Court, at 800 10th Avenue.

For the past three months, Griffin Court has been averaging two deals a week, and prices within 2 percent of asking. “A combination of the lack of available product on the market right now, low interest rates, and the fact that the project is already more than halfway sold,” Mr. Horn said, “means that as a developer, I really don’t have to negotiate at all.”

With few new apartments coming on the market, it is likely that the pace of signed contracts will wane. “I’ll be surprised if we can keep up this pace of producing over 1,000 new deals a month as we head into June,” said Mr. Rosenblatt of UrbanDigs. Low inventory and strong demand have historically driven prices higher, but closings are several months away for contracts signed this spring; only after that will sales prices be publicly recorded.

Most of the new projects in the pipeline are small boutique buildings. “Nobody is doing 150- or 200-unit projects at this point,” Mr. Horn said, “because it is hard to find sites that are large enough, and it is just too risky putting so many units on the market at once.”

Instead, Alchemy is preparing two smaller developments: 32 condominiums and 11 town houses at 291 Union Street in Carroll Gardens that will begin marketing in June and be ready for occupancy next year; and a 57-unit condominium, as yet unnamed, at 35 West 15th Street off Fifth Avenue in Manhattan that will not be ready until 2014.

“We are already inundated,” Mr. Horn said, “with over 100 people on each waiting list.”

GAME PLAN

The New York real estate market has tightened this spring, but buyers can still get good deals on new condos. Following are some tactics you might consider:

BE FIRST Developers want to kick-start sales to generate momentum, and they also need to sell a certain percentage of units to qualify the condominium as a functioning business entity.

BE LAST Especially if a project has been on the market for many months, the developer and brokers may offer discounts or incentives to unload the final few units.

ON THE MARGINS Smaller developments in emerging or out-of-the-way neighborhoods can be harder to sell. But if they meet your needs, there are bargains to be had.

BRING CASH Buyers who don't need financing contingencies in their contracts are a developer's dream.

RESPECT THE ASKING PRICE Developers are loath to offer price discounts because they lower the value of all other units. Instead, ask if some closing costs or legal fees could be covered.