BOUTIQUE CONDOS IN BLOOM

With lending tight and buyers cautious, Manhattan sees steep drop-off in the size of new condo projects

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By Sarabeth Sanders

Alchemy Properties' Kenneth Horn at his under-construction 57-unit condo at 15th Street and Fifth Avenue

At the height of the boom, *The Real Deal* often wrote of the developers of massive condominium towers one-upping each other with newer, bigger buildings and the next best over-the-top amenity.

At Midtown's 220-unit Platinum, there was the golf simulator and the massage room. At the 258-unit Riverhouse in Battery Park City, there was the pet spa. And at the Financial District's 319-unit William Beaver House, basketball and squash courts, a hot tub and an outdoor shower were all part of the original attempts to woo buyers.

How things have changed. Now, with much of the inventory from the boom era's mega-condos sold off, boutique buildings with fewer amenities are dominating the new development sales market.

There's still the occasional pet spa, of course (see the Related Companies' 42nd Street condo-rental behemoth MiMA), but the economic climate of the past few years stifled the pipeline on massive projects. So developers, out of necessity, began favoring smaller, more intimate buildings, where privacy was the draw, not flashy bells and whistles.

"For the last two years you didn't see bigger deals," said Andy Gerringer, the managing director of new business development at the Marketing Directors. "The [projects] coming out today were deals that were worked on a year or two years ago, and that's when the financing was really difficult."

Indeed, the drop-off in the size of new condo projects since the boom is palpable in Manhattan. According to data compiled by real estate aggregator StreetEasy, the average new condo to hit the market in the borough during 2007 contained 81 units. At that time, buildings like Midtown South's Twenty9th Park Madison (142 units) and the Upper East Side's Century Tower (128 units) were hardly headline-grabbers.

In 2010, though, the average condo was down to 48 units. The Setai Fifth Avenue, with 190 units, was by far the largest to launch. And, so far in 2011, the average condo to come online has 34 units, with the 111-unit 250 West Street the biggest of the pack.

It's no secret that a difficult financing climate is the major culprit. Even as lenders warm to multifamily construction in New York, rental developers have reaped most of the benefits. New condos, particularly of the several-hundreds-of-units breed, have been scarce.

"If you look at the major lenders in past markets, it was Lehman Brothers, iStar and Anglo Irish," said Shaun Osher, founder and CEO of the residential brokerage Core. "Once those three lenders stopped lending and canceled projects, that had a major impact on the psyche of large developments."

So, in place of the Manhattan Houses (581 units) and the Sheffields (580 units) have been rentals and boutique condos with a few dozen units or less -- like 77 Reade Street and 471 Washington Street, both of which launched earlier this year, with 29 and 12 units, respectively.

"There are a lot more people who can pull off a small project," Osher said. "The equity required to pull off a deal now is a lot larger than it used to be because banks are requiring a larger loan-to-value [ratio], and [there are] not a lot of people who can write a big check."

Large condo projects are also inherently more risky, not just for the lender and the developer, but for the buyer.

In order to qualify for Fannie Mae financing, for example, buildings must reach either 51 percent or 70 percent presold. That's a lot easier to accomplish with 20 units than it is with 200, and today's buyers are keenly aware of the potential repercussions of purchasing a unit in a large building that winds up stagnating, having just witnessed so many boom-time developments go belly-up.

"The boutique quality of buildings is becoming important to people because they're fearful that perhaps if they buy in a 300-unit building and only 100 units are sold, then there are 200 units unsold," said Kenneth Horn, president of condo development firm Alchemy Properties, which he noted generally focuses on 30- to 70-unit projects. Alchemy is currently developing a 57-unit condo at 15th Street and Fifth Avenue, as well as a 43-unit condo and townhouse complex in Carroll Gardens.

Both projects have financing already lined up.

David Maundrell, founder of Brooklyn-based brokerage aptsandlofts.com, said his company's recent new development marketing contracts reflect the boutiques-only trend.

While aptsandlofts.com will be representing a slew of new rentals set to come online in 2012 and beyond, he said, the vast majority of the company's new condo pipeline -- which Maundrell described as "all these little boutique things all over the place" -- will hit the market by the beginning of next year.

After that, he said, the pipeline starts to dry up.

Of the new condos Maundrell is bringing to market in the coming months, 88-92 South 1st Street in Williamsburg, with 31 units, is the largest. Others include 93 Herbert Street, 29 Montrose Avenue and 174 Jackson Avenue, which have eight units apiece.

While Horn contends that there is some financing out there for new condos right now, there's admittedly "not a lot," and lenders are asking for more money down. Those builders who are new to the game, though, are

probably out of luck.

"I think new developers have no shot at getting financing," Horn said. "Zero."

The upstart Grand Street Development, a Brooklyn-based firm, may be one of the few exceptions. The partnership broke ground on its first-ever project, the 174 Jackson Street building that aptsandlofts

.com is marketing in Williamsburg, in May 2010, with the help of a $2 million construction loan from a private lender.

"I realize that was very, very unique that we were able to get that when nobody else was," said Dean Marchi, a partner at the firm, who was previously a broker for CB Richard Ellis. "We worked extraordinarily hard to find this lender."

Maundrell said that because financing for new condos is still so tight, it's possible that within a year, the only new inventory remaining will be in boutique buildings.

"In the meantime, you're going to see the resales in some of the newer [larger] buildings doing very, very well, or those sellers doing very, very well, because buyers are going to have a limited amount of inventory," said Stephen Kliegerman, president of Terra Development Marketing, which oversees both Halstead Property's and Brown Harris Stevens' marketing divisions.

Horn said financing is beginning to open up again for large condo deals, but noted that because those projects typically take around three years or more to complete, it will likely be at least two years before New York buyers begin to see the fruits of that labor.

That's all according to plan for Marchi, who said he decided to break into the condo market while most everyone else was pursuing rentals so that "there would be less product to compete against."

That's not to say he's not interested in developing rental buildings, too -- he is. But, "when people are zagging I tend to want to zig," Marchi said. "When there are fewer condos in the market, I'm pleased to be selling."

He's also banking on the idea that New York real estate has -- for the time being -- outgrown its flashy, amenity-filled, mega-project phase.

While Marchi said he and his partners originally considered putting together a small list of amenities for the four-story 174 Jackson, including an elevator, movie theater and basement gym, by the time construction began in May 2010, they decided that "people would prefer that money going into either their pocket or their house."

Now that 174 Jackson is complete, the Grand Street Development partners are on the hunt for their next project, and they're sticking with the boutique concept for the time being.

"I think that, probably, the worst is behind us, but I'm not sure I'd want to have 80 units going into this market

in a week or two," Marchi said. "Right now, perhaps being a little cautious is a good idea."