

# Developer land rush pushes values sky-high

*Even unremarkable sites attain cachet; is it real or just another bubble?*

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Late last summer, Elad Properties made a land deal that seemed more riddled with risk than its recent purchase of the Plaza Hotel. The developer paid a record \$200 a square foot for an unremarkable plot of land on the far West Side, where it planned to build 40 stories of luxury condominiums.

Less than a year later, real estate brokers say that the land's value has jumped to \$300 a square foot, and other buyers are scouting out sites nearby.

"Elad paid about \$50 million and I bet I could sell it for about \$75 million," says Eric Anton, the Eastern Consolidated broker who sold the site. "Even in the early 1980s, it wasn't this crazy."

Land values citywide have reached their highest levels in New York's long and profitable real estate history. Inspired by the high prices that home buyers are paying for luxury condominiums, developers are plunking down 50% more than they did under a year ago for any smidgen of empty land that they can build premium housing upon. Well-located spots are commanding higher increases.

## **Underlying confidence**

Even areas of Brooklyn and Queens that in past years struggled to attract new development are experiencing jumps in land appraisals.

Though prices for New York's co-ops and condos have been skyrocketing for years, land values are taking off now because developers are more confident than ever that they will be able to get top dollar for newly built apartments. What's more, a flurry of construction is creating intense competition for parcels.

Cushman & Wakefield Inc. brokers estimate that a site at 225 E. 34th St., which could have fetched about \$200 to \$250 a square foot two years ago, will now sell for about \$400 a square foot.

"There are more developers looking to build in the city than ever before," says Robert Knakal, chairman of Massey Knakal Realty Services Inc.

Not every developer feels comfortable paying such high prices. Some worry about a possible real estate bubble and fear that they won't be able to cover their high fixed costs as interest rates rise. They're also concerned that thousands of other luxury apartments could hit the market at the same time, as the construction boom builds.

The Clarett Group is one development firm taking a step back. In 2002, the company bought an Upper West Side plot of land for \$163 a square foot, and is currently having no trouble selling apartments on this site for about \$900 a square foot.

### **Some have their limits**

But Clarett Group executives have lately walked away from land deals because, they say, the sites have been too expensive. Current land prices combined with rising construction costs mean that Clarett would have to charge more than \$1 million for a 700-square-foot one-bedroom to make what it considers a decent profit. Veronica Hackett, Clarett's managing partner, thinks that even the red-hot New York housing market will not bear such inflated price tags.

"If we pay over \$300 a square foot, we're up at \$1,500 a square foot in average condominium sales prices," says Ms. Hackett. "We'll pay only what we think we can afford."

Most developers, however, are less worried about losing their shirts. They say that economic conditions during this nascent building boom are different than those of the late '80s that led to the real estate crash of the early '90s.

They note that the new buildings rising in Manhattan and in other boroughs have fewer units than their counterparts of two decades ago. "Many of the sites are not as big as the 1980s, so we don't have to worry about overbuilding," says Mr. Anton. "It takes six or seven projects to add up to one 1980s 400-unit project on the Upper East Side."

### **Being picky**

Others believe they can cherry-pick, saying that certain properties are worth every penny. Development firm RAL Cos. recently paid about \$200 a square foot for property on the Brooklyn waterfront. Executives think that the apartments' views of Manhattan and the Brooklyn Bridge will always sway buyers to pay a premium.

The developer also just spent more than \$250 a square foot to buy a printing firm at 263 Ninth Ave., a property that would have cost 25% less a year ago, because it offers more light and air than most Manhattan spaces.

### **Eventual gains**

"These purchases are clearly calculated," says Robert Levine, RAL's president. "Twenty percent of the properties we look at we actually bid on."

Some developers say that nearly all real estate development becomes profitable eventually. Skyline Developers, which recently bought 170 East End Ave. from Beth Israel Hospital for more than \$600 a square foot, is looking for four to five more sites to buy.

"People should stretch because history tells you over time that your value goes up in New York City," says Orin Wilf, Skyline's president. "It's just a matter of being able to take a chance."

Still, Ms. Hackett, who faces pressure from backers to invest another \$200 million in New York City residential projects, warns that overpaying now could have consequences later.

"Sellers have to realize that it's not going to continue at this fevered pitch," she says. "There will be fewer people prepared to pay these high prices."