

The New York Times

The People's Penthouse

In a cooling market, shared lounges and pools are taking over what used to be residential pinnacles for the elite.

By Stefanos Chen
July 27, 2018



Stefano Ukmar for The New York Times

Falling real estate prices, like toppled statues of despots, can have a democratizing effect. In the overheated New York apartment market, a case in point: penthouses for the people.

Long reserved for the largest, most expensive apartments, the top floors of several new rental and condo buildings are instead being dedicated to shared amenity spaces with a suite of perks for residents — and sometimes even the rabble outside — including so-called sky lounges, exclusive restaurants and rooftop pools at towering heights.

Developers, not typically known for their largesse, are making a wager: A penthouse perch for all will add value in aggregate, even as it cuts potential earnings from pricey would-be apartment space. And with the high end of the market flagging, it may also be the safest bet, as developers refocus on smaller but still costly apartments designed to move faster than the multimillion-dollar behemoths popularized in the last cycle. The luxurious common spaces might help take the minds of residents off their shrinking apartments.

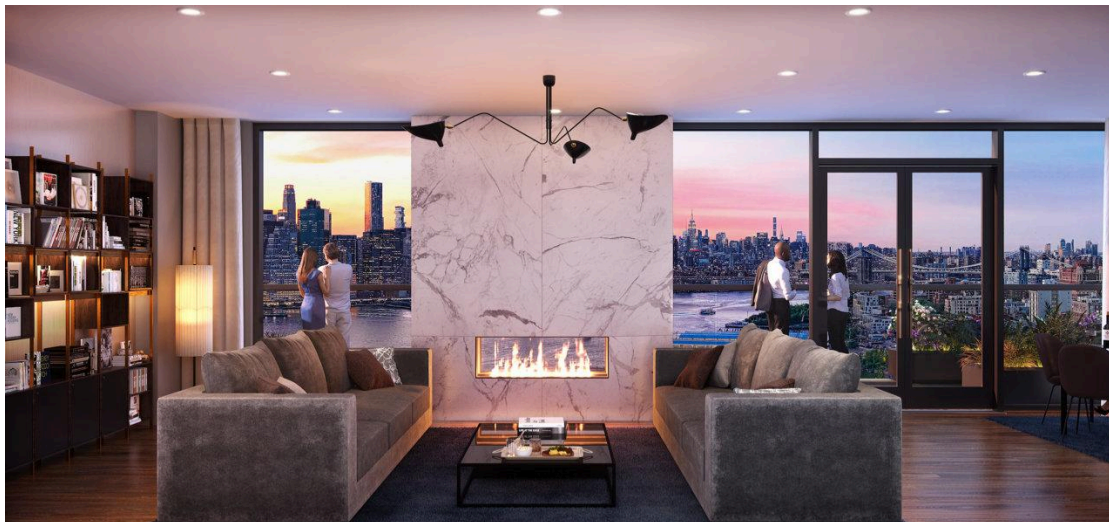
The shared spaces could also mean new revenue streams through membership fees, while a hard-to-move penthouse apartment might lower asking prices elsewhere in the building.

It is a design trend seldom seen since the 1980s, when health clubs and plastic lounge chairs found a place on the penthouse roost. As then, the market is saturated, but today's developers are hoping their high-level offerings will age more gracefully.

There is ample cause for the shift, as the city's sales and rental markets have experienced recent declines. In the second quarter, Manhattan's springtime sales volume dropped to its lowest level since 2009, according to a Douglas Elliman report, and the median sales price fell 7.5 percent to \$1.1 million,

compared to the same period last year, as inventory grew and buyers dragged their feet. In June, the median asking rent fell 2.9 percent from the same period last year, to \$3,400 a month, and almost a third of all leases included some kind of concession, like a month or more of free rent.

Some projects were ahead of the curve. At the American Copper Buildings, a recently completed pair of connected rental towers that rise 41 and 48 stories above the East River in the Murray Hill neighborhood of Manhattan, some of the best penthouse space is not for rent.



Nearly all of the 4,500-square-foot penthouse level of Quay Tower, a luxury condo at Brooklyn Bridge Park, near Brooklyn Heights, will be dedicated to two lounges for residents. (This is a rendering of the sunset lounge, designed by Marmol Radziner, which will have a 60-foot terrace and grilling areas.)

On the east tower, the developer, JDS Development Group, installed a three-foot-deep rooftop pool, outdoor showers, a bar, grill and dining areas, all with sweeping views of the East River and the city skyline. On the west tower, natural-gas generators, with enough juice to power the buildings through another Hurricane Sandy, take up valuable space.

That is in addition to the sky bridge, a three-story engineering feat that connects the two towers on the 27th floor and is filled with amenities like a gym, a chef's kitchen, a hammam-style spa, a juice bar and a 75-foot pool. Management charges residents \$150 a month for access to the bridge, while the new rooftop deck will carry an additional seasonal cost yet to be revealed.

In total, there are 761 units, priced between \$4,055 a month for a studio and \$30,000 for the choicest three-bedroom (which is still on the market). In exchange for tax breaks, the developer has included 160 units with below-market rates, available through an affordable housing lottery.

"We looked at the building as a holistic package," said Michael Stern, the managing partner at JDS. The high-floor amenity spaces could have been scaled back to make way for bigger apartments, he added, but the market is trending toward studios and one-bedrooms. This is the first time he has placed amenities this high in a building, he said, and he is considering something similar at his upcoming 247 Cherry Street tower on the Lower East Side.

"I think the amenities increase the value of all the real estate in the building," said Jodi Ann Stasse, executive vice president of new developments with Citi Habitats, which is handling the project.

At the very least, along with the focus on smaller apartments, it could be speeding up absorption: The project is more than 60 percent leased since marketing began in early 2017, she said, thanks in large part to the studio and one-bedroom apartments that make up 68 percent of the market-rate units.

There are even studios near the top of the towers, a rarity in the luxury market, including one leased apartment on the 46th floor that was listed for \$4,370 a month.

The project hasn't suffered for lack of penthouse units so far: It is leasing at an asking price of around \$95 a square foot, she said — about 52 percent higher than the rest of Murray Hill, according to the real-estate data website StreetEasy.

For a growing number of developers, the shared penthouse space is the latest salvo in an amenities arms race. "It's reflective of how competitive the market has become," said Patrick W. Smith, an agent who focuses on new development for Stribling.

In an analysis of more than 200 condo and rental buildings in the financial district, Long Island City and Downtown Brooklyn — three markets that are growing rapidly — almost a quarter of the buildings begun or completed after 2016 had penthouse amenities, he said, compared with just 13 percent from 2006 to 2015.

Penthouse amenities were most prevalent in rental buildings, with 35 percent of projects since 2016 offering common space at the top, compared with 13 percent of condos. What many of these projects have in common, Mr. Smith said, is volume: Post-2016 buildings without penthouse amenities had an average of 215 units, while those with top-floor perks averaged 317, roughly 47 percent more.

The trend is also a response to a changing unit mix that skews smaller. In Long Island City, where at least 5,900 new units are expected, the most in the city, the Alta LIC tower is leasing 467 apartments, of which 170 will be "micro suites" with roughly 150-square-foot private bedrooms and shared common areas for two or three roommates.

"People are willing to exchange some space for amenities," said Matthew M. Baron, president of Simon Baron Development, which is partnering with the co-living operator Ollie. All tenants will have access to the amenities, including a double-height lounge at the top of the 43-story building with a catering kitchen, fireplace and co-working space. Other amenities include an indoor pool, an outdoor lawn and movie screen, a golf simulator and pet-sitting services.

Prices for the private units start at \$2,507 a month for a studio and \$6,600 for a three-bedroom; a bedroom in a micro suite starts at \$1,376. Mr. Baron said the project is 45 percent leased since marketing began in April.

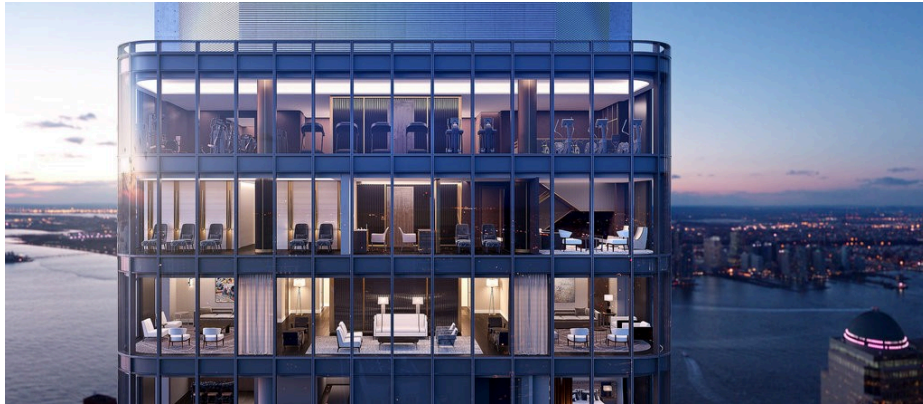
It is a growing trend in other markets as well, said Brad Dillman, chief economist for Cortland Partners, an Atlanta-based multifamily real estate investment company. "You might only be able to afford a midrange unit, and you're paying through the nose for it," he said, "but you get these penthouse amenities."

The condo market has been slower to test penthouse amenities, in part because the top-floor premium was so characteristic of the last cycle. "The profit is at the top," said Jonathan J. Miller, president of the appraisal firm Miller Samuel.

In 2014, a penthouse at One57 in Midtown sold for more than \$100 million, a city record; the average sales price there, including resales, is \$17 million, according to StreetEasy. But in the midst of an ongoing price correction, in which apartments in the so-called billionaire's row of Midtown are reselling for 20 to 40 percent less than they were at the peak of the market in 2014, that thinking is changing, Mr. Miller said.

At 125 Greenwich, an 88-story condo tower in the financial district designed by Rafael Viñoly — the same architect who designed 432 Park, one of the priciest apartment buildings in New York — all three of the top floors will be dedicated to amenities. They include a full gym, a massage therapy room, a hair salon, a screening room and a saltwater pool 800 feet above the street. Initially, the amenities were to be

scattered across the bottom 10 floors, said Alessandro Pallaoro, executive vice president of Bizzi & Partners, the developer.



A rendering of 125 Greenwich, an 88-story condo in the financial district, where the top three floors will be dedicated to amenities, including a massage therapy room, a hair salon, a screening room and a saltwater pool 800 feet above the street. CreditMarch

“We did it to differentiate ourselves,” he said, noting this was the first time his company had put the amenities on top. While the building will not be completed until 2020, he said, it is up against a number of other towers rising downtown, many of which are targeting the same “entry-level” luxury market.

The company also adjusted its ambitions. Initial plans called for some four-bedroom apartments with eight-figure price tags, said Marc Palermo, senior vice president with Douglas Elliman Development Marketing, which is managing sales. Instead, they reserved space for high-floor studios, which begin on the 61st floor. (Apartments on the floors below range from one- to three-bedrooms.) Out of 273 apartments, almost 70 percent are one-bedrooms and studios. Prices range from about \$1.2 million for a studio to \$5.5 million for a three-bedroom.

Of course, the building still has some larger units: A total of four “penthouses,” below the amenity floors, are priced up to \$13.25 million.

Overall, however, the units are smaller. The median apartment size at 125 Greenwich is 950 square feet, 40 percent smaller than the median 1,572 square feet at three completed condo projects nearby, said Gabby Warshawer, director of research at CityRealty, a listings information website.

At Quay Tower, a condo tower under construction at Brooklyn Bridge Park, near Brooklyn Heights, nearly all of the 4,500-square-foot, 30th-floor penthouse is reserved for two residents’ lounges with unimpeded river and skyline views. Not long ago, it would have been a massive apartment, said David Wine, a managing partner at Oliver’s Realty Group, one of the developers — and with the potential to sell for close to \$3,000 a square foot, it could have fetched around \$13.5 million.

But “a developer has more than one apartment to sell,” he said, adding that the building’s mix of 126 units was designed to be flexible, in case a buyer decided to join two apartments into a five-bedroom combination.

Still other developers are finding alternative ways to sell the view at the top. At 70 Pine, the former AIG headquarters converted to luxury rentals with a hotel on the lower floors, the developer sacrificed about \$25 million worth of potential condos to create a four-floor restaurant at the top of the 66-story Art Deco tower.

Marc Ehrlich, chief investment officer at Rose Associates, the developer, said the company considered going condo at the top, but decided instead to lease the 7,600-square-foot space, as well as some of the

base of the building, to create two restaurants led by James Kent, of NoMad fame. The as-yet unnamed restaurants will be open to the public, but will offer special treatment for residents of the tower.

“It’s almost becoming a prerequisite” to have penthouse amenities, Mr. Ehrlich said, because so much of the competition thinks the same way. While the 612 rental units are now mostly leased, he expects the restaurant, when it opens next year, to help push rents higher by about \$1 or \$2 a square foot, or about \$80,000 more a month.

Doug Steiner, the developer of the Hub in Downtown Brooklyn, is one of the few who seems to regret yielding to peer pressure.

His project — currently the tallest rental tower in Brooklyn, with 600 market-rate units — had nearly an acre of amenities on the third floor, including a pool, a home theater and a dog run. But halfway through the build he decided to nix two apartments at the top to create an indoor-outdoor sky lounge with a glass parapet to dampen the whipping winds 610 feet above the street.



Residents at the Hub take in the sights from the top of the 610-foot tower, currently the tallest in Brooklyn; taller competitors are under construction. Credit: Stefano Ukmar for The New York Times

“I’m not sure we get more for it,” Mr. Steiner said, as his company finally opened the space to residents this month. The building is already 85 percent leased, but the mid-construction design headaches of engineering the rooftop lounge put its completion behind schedule and over budget.

On a recent afternoon, several residents — many of them likely studio tenants, as they make up a large share of the renters — enjoyed a picturesque sunset, overlooking the future site of still-taller apartment buildings set for completion in the next few years.

“We didn’t want anybody to have something we didn’t have,” Mr. Steiner said.

But “in the same circumstances,” he added, “I wouldn’t do it again.”

<https://www.nytimes.com/2018/07/27/realestate/the-peoples-penthouse.html?ref=collection%2Fsectioncollection%2Frealestate&action=click&contentCollection=realestate®ion=rank&module=package&version=highlights&contentPlacement=1&pgtype=sectionfront>