

December 12, 2013

## **Shabby Chic – New York’s Market for Multi-million Dollar Fixer-uppers**

As condo prices in Manhattan’s luxury market rise to record levels, fixer-uppers are one of the last options for bargain hunters.

“Here’s an opportunity to save a lot of money and do it yourself,” said CORE broker Reba Miller, standing in a full floor condo on East 66th Street. “There is just a very limited supply for people who want a big space in Lenox Hill.

“Would this appeal to someone from China who wants a brand-new apartment? No. It appeals to someone who understands charm.”



The 3,600 s/f apartment hasn’t been renovated in years, and Miller estimates that the buyer would have to invest \$2-3 million — that’s on top of an asking price of \$9 million. But she claims this is still a bargain compared to new developments and conversions such as the nearby Marquand, an HFZ conversion project, where similarly sized apartments start around \$15 million.

There are plenty of good reasons to buy fixer-uppers. They are often significantly cheaper than finished luxury apartments — despite the renovation costs — and they allow buyers to create a living space according to their own tastes. But somewhat surprisingly, brokers still tend to have a hard time selling them.

Last year, Corcoran broker Deanna Kory sold a 5,000 s/f fixer-upper co-op on the Upper East Side for just under \$9 million. “It was a bargain for my buyers, who had decided that they wanted to do their own thing anyway,” she said. But Kory also said most people who looked at her Upper East Side fixer-upper showed little interest.

Regulations that leave buyers little time for improvements are one reason for sluggish demand. “Some buildings have summer work rules. A lot of times, people would get apartments and for the life of themselves couldn’t get them renovated over the summer,” said Kory.

If regulations are lax, as in the case of Kory’s Upper East Side listing, the effort involved in renovating is still a big deterrent. “People realize it costs a lot to renovate, and are not always so incredibly anxious to buy,” Kory said. “It takes a lot to renovate these apartments.”

The often year-long renovation process is a particular deterrent for foreigners. Conversions and luxury developments in Manhattan have sold at record prices in part because of demand from wealthy Chinese, Middle Eastern and Eastern European buyers. But foreign millionaires tend to have neither the patience, nor the knowledge of local regulations and contractors to go through a renovation.

Unsurprisingly, brokers say that New Yorkers are the most common buyers of fixer-uppers. But even if regulations are favorable and buyers are willing to renovate, there is still a third obstacle: fixer-uppers tend to make a bad first impression. Compared to shiny new luxury condos, fixer-uppers look like an apartment well below their price range, and require a lot of imagination from buyers.

“The problem with an unrenovated unit is that people often don’t know what they are looking at, that’s why they pass on it,” said Kory. “It is hard for people who don’t have vision.”

In 2011, Karina Sagiev of Evans Real Estate Investments had a 1,800 s/f fixer-upper at Park Avenue and 57th Street listed for \$2.5 million. “It had a beautiful terrace and beautiful views, but everyone who walked in was shocked — it was written on their faces,” said Sagiev. “The fact that the address was Park Ave made it more shocking. This type of clientele wants beautiful apartments, not projects.”

The apartment, completely gutted and with all of the walls removed, simply didn’t look appealing enough. Even though Sagiev had contractors and a potential post-renovation floor plan ready, no one was interested. After one year and more than two dozen showings, the seller took the property off the market again.

Making a fixer-upper look good is perhaps the biggest challenge for brokers.

When Frances Katzen of Douglas Elliman put a gutted apartment on Seventh Avenue in Chelsea on the market, she decided to stage part of it to show what it could look like.

“People buy with emotion and with numbers; it has to make sense. If you have a property with phenomenal views and great potential, you will need to create one portion of the home as a finished look, it really helps drive home the point,” Katzen said.

Her strategy paid off. The apartment is currently under contract with a buyer who plans a complete renovation. Katzen is convinced that buying a fixer-upper is worthwhile, despite the effort involved.

“Nowadays people buy luxury apartments that are almost like hotel rooms,” she said. “But if you can buy an apartment on a high floor, or with park view, that just happens to need renovation, it can be much more rewarding. This is for people who want to leave their own imprint.”

The architect Marc Spector, principal of the Spector Group, has done interior work on several fixer-uppers. He said that renovating a 5,000 s/f apartment from the gut can cost

between \$800 and \$1,500 per s/f, and yet he has noticed an “insatiable demand” for fixer-uppers.

“It’s all about location, that is the key. What you’re seeing in New York right now is that those who have the means are looking for these diamonds in the rough,” he said. “The challenge is finding an apartment that hasn’t been changed in 30 years. If you can find them, you can renovate and sell them with an enormous profit.”