The **RPG** Office Condominium Report

First Half 2020

First Half of 2020 Office Condominium Sales

At a Glance

- **The Market Has Halted:** Due to the impact of COVID-19, Manhattan saw a 66% decline in office condominium sales, the lowest amount of square footage sold in a half year period in more than a decade.
- **Sales Prices Dip Slightly:** The average sales price per square foot decreased 6.8% to $826 per square foot, down from an average of $886 per square foot in the second half of 2019. The total value of sales dropped 64% from $258,737,909 to $80,937,095, respectively.
- **Conversions to Office Condominiums During Crisis:** Many of Manhattan's most active office condominium buildings were created during times of distress, including the early 90's and 2000's. As landlords faced rising vacancies and heavy debt loads, office condominium conversion strategies proved to be a creative and profitable solution.

Market Overview

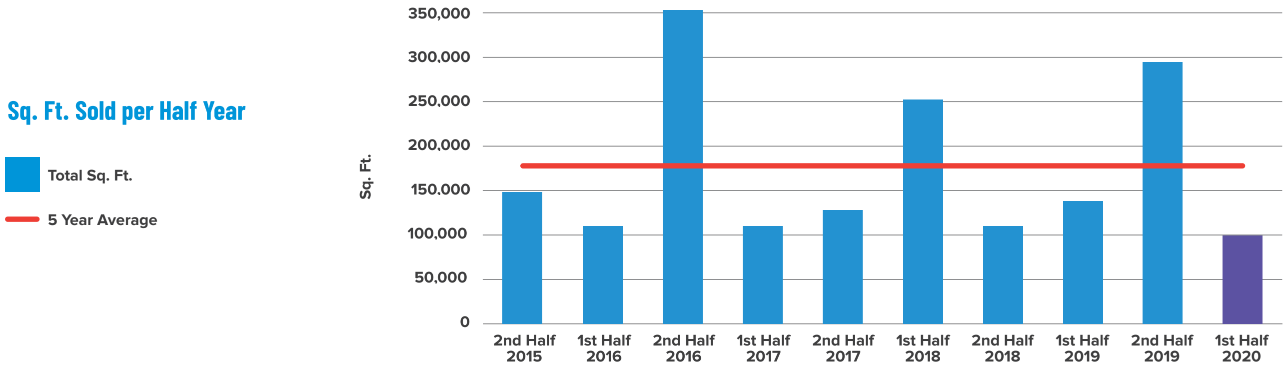
The Manhattan office condominium market is made up of 103 buildings, occupying a total of 11.2 million square feet. The Midtown submarket is comprised of 6.1 million square feet; Midtown South is comprised of 3 million square feet; Downtown is comprised of 2.1 million square feet. There are 3.4 million square feet of class A office condominiums, 5.5 million square feet of class B, and 2.3 million square feet of class C.

First Half of 2020 Office Condominium Sales:

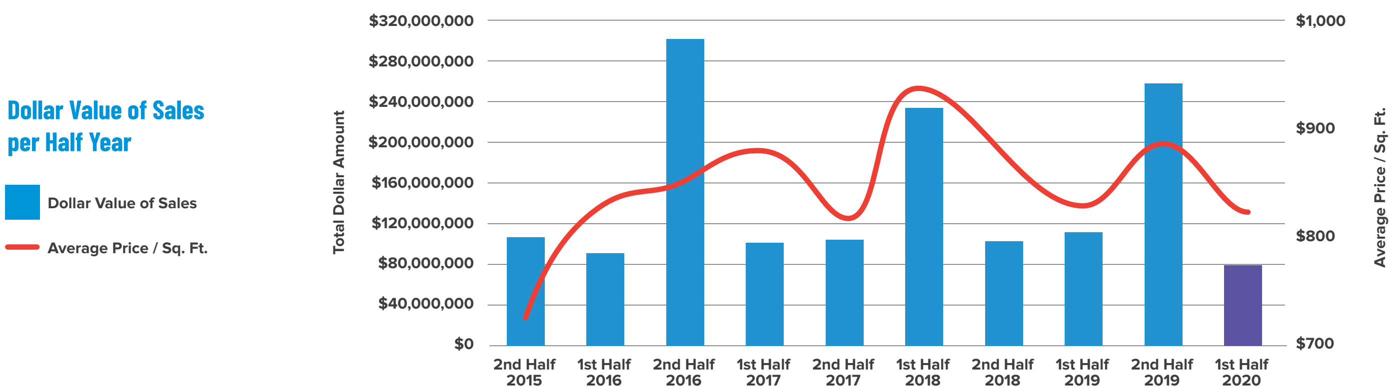
The first half of 2020 saw just 97,969 square feet of office condominium sales in Manhattan totaling $80,937,095. There was a total of 17 office condominium sales (averaging 5,763 square feet) across 14 different buildings for an average of $826 per square foot.

Market Overview (continued)

Square Footage of Sales: The 97,969 square feet of total sales was less than half the amount sold in the second half of 2019, which totaled 292,068 square feet. The total square footage of sales in the second half of 2019 is also considerably lower than the five-year average of 176,307 square feet per half-year.



Dollar Value of Sales: In the first half of 2020 office condominium sales totalled $80,937,095, significantly lower than the $258,737,909 in sales in the second half of 2019. The dollar value of sales is 46% less than the five-year average of $150,787,146.



Average Price Per Square Foot: In the first half of 2020, the average price per square foot was $826, 6.7% lower than the second half of 2019 average of $886 per square foot and 3.4% lower than the five-year average of $855 per square foot.

Number of Sales: There were 17 sales in the first half of 2020 compared to 19 sales in the second half of 2019. The number of office condominiums sold in the first half of 2019 was lower than the five-year average by eight sales.

Submarket Statistics

The Midtown submarket is Manhattan's largest office condominium submarket, comprised of approximately 6.1 million square feet. In the first half of 2020 there were 11 sales totaling 67,478 square feet. The dollar value of these sales totaled $55,182,175, averaging $818 per square foot.

The Midtown South submarket is comprised of approximately 3 million square feet of office condominiums. In the first half of 2020, there were four sales totaling 21,676 square feet. The dollar value of these sales were $17,977,920 and averaging $829 per square foot.

The Downtown submarket is comprised of approximately 2.1 million square feet of office condominiums. In the first half of 2020, there were two sales totaling 8,815 square feet. The dollar value of these sales were $7,777,000 and averaging $882 per square foot.

Availability

Currently, there is 1,004,748 square feet of office condominiums available in Manhattan (121 units are for sale across 57 buildings), which equates to a 9% availability rate. The average asking price is $902 per square foot. In the Midtown submarket, there is 620,381 square feet for sale with an average asking price of $940 per square foot. In the Midtown South submarket, there is 153,341 square feet for sale with an average asking price of $995 per square foot. In the Downtown submarket, there is 231,026 square feet for sale with an average asking price of $754 per square foot.

Notable Office Condominium Sales

633 THIRD AVENUE

between 40th and 41st Streets

19th Floor: 19,798 Sq. Ft.

Price: $12,500,000 ($631/Sq. Ft)

Sale Date: 04/20/20

Purchaser: Ivan Babenko

Seller: National Center on Addiction and Substance Abuse

36 WEST 44TH STREET

Between Fifth and Sixth Avenues

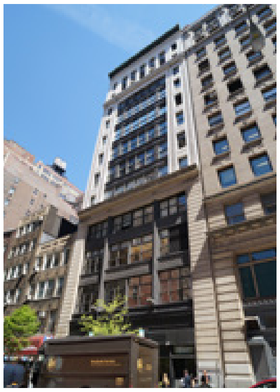
Unit 600B: 3,973 Sq. Ft.

Price: $4,000,000 ($1,007/Sq. Ft.)

Sale Date: 02/26/20

Purchaser: Dr. Sousa Do Ouro

Seller: Color Masters



135 WEST 27TH STREET

Between Sixth and Seventh Avenues

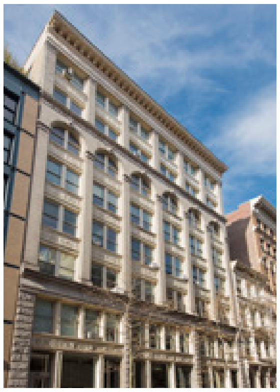
10th Floor: 4,500 Sq. Ft.

Price: $4,251,000 ($945/Sq. Ft.)

Sale Date: 01/22/20

Purchaser: ABM Systems

Seller: Architectural Tile Restoration



141 WOOSTER STREET

Between West Houston and Prince Streets

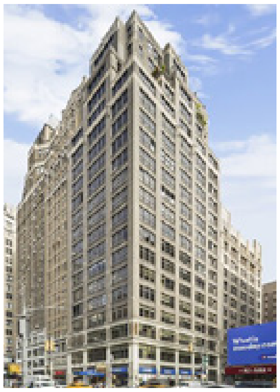
4th Floors: 8,315 Sq. Ft.

Price: $7,250,000 ($872/Sq. Ft.)

Sale Date: 02/24/20

Purchaser: Case Agency

Seller: Overlook Associates



305 SEVENTH AVENUE

Between Sixth and Seventh Avenues

3rd Floor: 9,476 Sq. Ft.

Price: $7,500,000 ($791/Sq. Ft.)

Sale Date: 01/30/20

Purchaser: The Consortium for Worker Education

Seller: Good Shepard Services

25 WEST 31ST STREET

Between Fifth and Sixth Avenues

11th Floor: 5,800 Sq. Ft.

Price: $4,500,000 ($776/Sq. Ft.)

Sale Date: 01/28/20

Purchaser: The Dalal Family Foundation

Seller: Rajeev Kaul

CONVERSIONS — IN — CRISIS

When commercial landlords struggle with vacancy in a down market, a condominium conversion can be a unique and successful strategy.

While the long-term ramifications that COVID-19 will have on the Manhattan office market remain unclear, it appears inevitable that owners will see an increase in vacancy rates over the next several quarters. As vacancy rates increase many landlords will be unable to pay their mortgages, and may lose their building to foreclosure.

During times of distress, one of the most successful strategies that landlords have deployed is the office condominium conversion. An office condominium conversion enables owners to sell the vacant space(s) directly to owner/occupiers, giving them the ability to pay down their mortgage and retain ownership of the income producing, occupied portion of the building.

Limited Supply

One of the biggest benefits of the conversion strategy is the uniqueness of the offering itself. Of the 500 million square foot office market, less than 2% is composed of office condominiums. Unlike the office leasing market, which is expected to be flooded with available direct and sublease space, the office condominium market will continue to have a very limited available supply—even in a down market.

Buyer Demand

In an office market long dominated by leasing options, the basic lack of well-priced, high-quality properties for sale proves to be the chief impediment to owning and occupying office space. In a down economy, companies and organizations with an eye on their bottom line will be increasingly attracted to the benefits of owning their own space. Office condominium ownership allows businesses and organizations to stabilize their office expenses, protect themselves against future rent increases as the market recovers, and due to appreciation, can become a profitable investment over time.

In addition, the Federal Government's SBA loan program offers businesses the opportunity to purchase office condominiums with loan-to-values as high as 90% with historically low interest rates, fixed up to 25 years

CONVERSIONS IN CRISIS

Case Study: 420 Fifth Avenue

Described as a “developer’s nightmare” by the New York Times, 420 Fifth Avenue had been built by Hammerson Property Investment and Development Corporation of London in the midst of a collapse in the leasing market in 1989. Two years after opening its doors, the 620,000-square-foot class A office building had an occupancy rate of just 10%. Facing the risk of losing the building to foreclosure, the developer pivoted and converted the building to office condominiums in 1991 and immediately sold multiple floors to the Girl Scouts of America. By the middle of 1993, 90% of the building had sold as office condos. The building is now occupied by a mixture of private businesses like Ziff Brother Investments, Luxottica and non-profit groups such as the Rockefeller Foundation.

Other office condominium conversions that were highly profitable for the struggling property owners during soft leasing markets include: Traveler’s Insurance Company’s 1994 conversion of 633 Third Avenue; Time Equities’ 2009 conversion of 70 West 36th Street and 131 West 33rd Street; and Philips International’s 2009 conversion of 40 Rector Street. In each case, the owner was able to maintain partial ownership of the asset as an income-producing office property.

Rudder Property Group

Rudder Property Group is a commercial real estate services firm that specializes exclusively in the sale of office condominiums in the New York metropolitan area. With 20 years of experience in this niche market, Rudder Property Group has sold over two million square feet of office condominiums with a dollar value in excess of $1 billion. In the small, highly specialized field of office condominium sales, Rudder Property Group is the market leader.

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