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BIG DEAL

The Rewards of Patience

Ángel Franco/The New York Times

ON THE WAY The view from a terrace off a model apartment at Walker Tower in Chelsea.

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IN the darkest days of the housing crisis, paralysis was the word of the day. Even in the rarefied world of high-end New York real estate, developers and buyers alike had to put their dreams on hold, at least for a while.

Ángel Franco/The New York Times
A living room in a model apartment.

Enlarge This Image

Ángel Franco/The New York Times
A scale model of Walker Tower.

Enlarge This Image

Michael Appleton for The New York Times
One Madison Park is back in business.

The day that Lehman Brothers crashed in September 2008, instantly deepening the crisis, Michael Stern, a New York developer, took his first tour of the 1929 Walker Tower in Chelsea. He closed on the building in December 2009 for $25 million, hoping to convert much of it to condos. But then he made a strategic decision that is likely to pay big dividends: he leased the building back to Verizon for two years while he waited out the chaos.

“The first time I ever looked at the building was the day the world fell apart,” Mr. Stern said.
A little patience can go a long way. At least that’s the lesson to be drawn from developers who have crawled from the ashes of the housing crisis — or from behind the barricades where they waited it out — to a Manhattan high-end market that has become a first-choice destination for the cash of the world’s wealthy.

New downtown buildings that were shelved during the financial crisis, like One Madison Park and 56 Leonard, are moving forward again, while conversions like Walker Tower are surging into a market constrained by low inventory, soaring prices and seemingly inexplicable sales to Russian oligarchs and Las Vegas casino titans.

“It is a very powerful moment in new development right now,” said Kelly Mack, president of the Corcoran Sunshine Marketing Group. “Developers are seeing a very strong opening in the market to really push their projects forward. These two years were really worth the wait.”

Consider how much the landscape has changed. By the fall of 2008, contract signings for new development essentially stopped. By the first quarter of 2009, buyers were too afraid to buy.

“Open houses were packed, but no one could make a decision,” recalled Jonathan J. Miller, president of Miller Samuel, a real estate appraisal firm.

One by one, new development projects stalled, because their pricing did not reflect the new market. “New development went through this period called ‘pretend and extend,’ or ‘pray and delay,’ or ‘a rolling loan gathers no loss,’ ” Mr. Miller said.

But this year has seen a stunning turnaround. Across the Manhattan market, contracts are up 26 percent across the board from the second quarter of 2010, while new development inventory is down 58 percent over the same period.

Things are getting tighter, and that has encouraged developers beaten down by the market to get off the canvas and back in the match. Some 58 percent of the projects that Corcoran Sunshine is planning were conceived before the downturn, Ms. Mack said.

Some projects on the drawing board in the boom years — when even newcomers fancied themselves developers — have ended up in steadier hands.

Consider the situation at a troubled condo project called One Madison Park. It is moving forward after its original developers, Ira Shapiro and Marc Jacobs, ran out of money and the project went into bankruptcy. The Related Companies, along with HFZ Capital Group and Amalgamated Bank, took title on the building in April, shepherding it through bankruptcy and settling most of the lawsuits involving the debtor, a Related spokeswoman said.

The original developers sold 12 apartments out of a possible 69, generating only $38 million, far too little to cover outstanding debts. Desperate for cash, the developers were looking for money anywhere they could, to help cover cost overruns. Among those still involved in litigation is Ian Bruce Eichner, a developer whom Mr. Shapiro offered an unfinished apartment for $5 million, in exchange for a $4.5 million loan.

Construction has begun again, and Related plans to sell 54 more apartments (3 fewer due to combinations). The company says it expects to start sales early next year. The Related spokeswoman would not comment further.

Other developers are content to wait even longer. Larry Silverstein, the developer of the World Trade Center complex, says he hopes construction can start next year on a Four Seasons Hotel project designed by Robert A. M. Stern at 99 Church Street. It will be topped by some 50 floors of condos (a private entrance for the condos is planned at 30 Park Place). His strategy is to start selling the 143 condos by the middle of 2015, when the World Trade Center will largely be completed.

The project was conceived in 2008, but the developers were able to hold off because they bought the land and paid predevelopment costs for just under $300 million. “We own the land debt-free,” he said, “so there is no pressure of any kind.”

It’s significant that more banks are moving back into construction loan financing, developers say. “It is excruciatingly difficult to accomplish yields today” in other investments, Mr. Silverstein said. Still, even with the reinvigorated market, the construction loan arena is a long way from what it was in the boom years. Most projects require equity of 40 to 60 percent, said Ziel Feldman, the managing principal of HFZ Capital Group. During the peak, developers could wrangle construction loans requiring equity of no more than 10 to 15 percent.

“There is a lot more at-risk money required today,” Mr. Feldman said. “That is one reason why the inventory is as low as I have seen it since the 1980s.”

That is about to change as more projects push their way into the pipeline. Some 1,500 new development units will be introduced each year over the next three years, Corcoran Marketing calculates.

Where will all this demand come from, since Wall Street is no longer as flush as it once was?

Mr. Feldman and others believe the gap is being filled by media and high-tech companies like Google that have been moving into the city, especially into the Midtown South area.

“We are creating our own Silicon Alley here,” Mr. Feldman said.

Then there is the international demand, which by most indications will remain strong, at least for a while. New York has become a magnet for foreigners who are essentially converting their currencies to dollars and buying hard assets.

Those foreigners’ deep pockets are benefiting super-high-end condo projects like One57, the developer Gary Barnett’s ode to Central Park, which is under construction and selling swiftly.

But domestic buyers are also circling, and are especially eager to buy downtown, developers say. And as downtown projects go, nothing seems as primed to capitalize as quickly on the favorable market conditions (for the industry) than Walker Tower, the Chelsea building originally designed by the architect Ralph Walker that is now being converted into 50 condominiums.

Sales started a few weeks ago and Mr. Stern, managing partner at JDS Development, which is codeveloping the conversion, promises to deliver the apartments in less than a year. He says he is investing about $200 million in the project.

The generously sized units are being sold starting at $3,000 a square foot and ranging higher than $8,000 a square foot for the top-floor penthouse, which has yet to hit the market.

Shaun Osher, the chief executive of CORE, which is handling the marketing for Walker Tower, urged Mr. Stern to install top-end finishes, like Smallbone of Devizes kitchens, radiant heating under the floors and built-in zone humidification systems.

“We gave Shaun every single one of those outrageous requests,” Mr. Stern said. “We were fortunate enough not to have to compromise anything.”

The decision to convert the building into very high-end condos — about half of which will have outdoor space — reflects where the market is taking developers. “That upper echelon of the market is improving much more rapidly,” he said.

But will patience be enough for the rest of the New York housing market, if the froth at the top doesn’t bubble its way down?