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Appraising "New" New York Real Estate

Appraising New York Homes

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While New York housing is known for its historical landmarks, diverse architecture, and rich turn-of-the-century construction details, certain buyers want brand new homes. New means newly constructed or newly converted condo developments. Appraising these properties is not simple, because new often implies the first, the only, the highest, the tallest, the largest, the most, and so on.

Condo ownership is preferred in new development because, on average, the units sell for more than co-ops. However, only a handful of newly constructed co-ops have been built in Manhattan over the past 20 years. Last year I coauthored a research paper with professor Michael Schill and Ioan Voicu of New York University in which we analyzed approximately 100,000 Manhattan apartment sales and found a 15.5 percent average value premium of condo ownership over co-op ownership. This was largely attributable to the enhanced marketability of condos due to their fewer restrictions.

The public perception is that appraising a condo is easier than a co-op because condo sales are on public record. Therefore the appraisal of a new development project is straightforward because they are generally condos. Wrong. A new development is often the first of its kind in the neighborhood, in terms of both price levels and quality of amenities, and information is limited.

Since there is no sales history within a new building, it is difficult to get an accurate reading of its price patterns. For example, the sponsor may have priced apartments with restricted views well above other apartments with similar restricted views outside the building. In addition to the fact that the apartments are new, the marketing efforts of the sponsor, including advertising, Web sites, model apartments, and a sales office, usually results in higher prices than in a similar size condo resale.

The appraiser has to rely partly on sales data provided by the sponsor, which is a non-neutral source of information that cannot be verified. An appraiser generally presents a minimum of three closed sales within the report as its primary focus plus contracts and listings. Since sales within a new development may not have begun to close, outside sales must be used, supplemented by contract sales provided by the sponsor or developer.

Some sponsors are reluctant to provide appraisers with information on apartment sales and the percentage of apartments sold within their buildings. The appraiser must include sales within the building, or else the lender providing the financing may not accept the valuation. Sponsors tend to keep this information to themselves, especially if they are negotiating prices.

The pace of sales is a gauge of market acceptance. During the condo development frenzy of the mid-1980s, the typical time to sell out an entire building was 18 to 30 months, depending on the size of the project. Current development strategies are now much more time-sensitive, with sellout times of about half those seen 15 to 20 years ago.

The percentage of apartments sold, as calculated by the sponsor, is often based on the number of signed contracts, number of contracts out for signature, or even number of offering plans signed out. Appraisers consider the number of signed contracts because they more accurately reflect agreements between buyers and sellers.

A marketing technique perfected over the past ten years has been sponsor price increase strategies. The initial offering prices are often set slightly below market levels followed by a series of small incremental price increases as the sales effort builds momentum. Sponsors often resist providing contract prices from the initial offering to appraisers because those prices are often lower. The appraiser must consider the dates of contracts and how the pricing and market conditions have since changed.

In a large project that has been in the marketing stage for 18 months or more, the difference in prices between initial offering and the most current amendment may be significant. This is further complicated when the initial sales begin to close and appear in public record with current closing dates. These closed sales may actually be more than a year old and not reflective of current market conditions.

The negotiability of offering prices is also a factor. Unlike resale, the sponsor prices the apartments to sell at the full asking price in the offering plan and does not intend to negotiate. If the pace of sales is slow, the sponsor's position weakens and prices may be negotiated. However, this tends to be the exception, not the rule, in the current market, which is experiencing a shortage of listings.

In summary, researching apartment sales in new developments poses some hurdles to appraisers. Of course, in a diverse city like New York, challenges like these are nothing new. ■

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