The RPG Newsletter

News and Insight on New York City's Office Condominium Market

HIGHER COMMON CHARGES ARE NOT THE ENEMY

and other ways to increase the value of your office condominium

Like most things in life, you get what you pay for.

Office condominium sellers often tout that their unit has low common charges. While this may seem appealing, you shouldn't base your search solely on these costs… here's why:

Low common charges may be indicative of an inadequate —or non-existent professional management of a property. Office condominiums that are not professionally managed are often riddled with deferred maintenance and a general lack of upkeep. Over time, the property loses its curb appeal, infrastructure components begin to break down and the costs to repair or replace these items continue to increase. Similar to the challenges when purchasing a home or apartment—if the bones of a building have not been properly taken care of, it is safe to assume the rest of the building will be of similar or worse condition.

A first impression is everything. All too often, we see prospective buyers' initial negative reactions when touring office condominium buildings touting low common charges. Outdated, unkempt lobbies and common areas, windows that don't open, and elevators that have not been modernized are just a few telltale signs—and that's just what is visible to the naked eye!

Properly calculated common charges serve a valuable purpose—to fund lobby and common area renovations, support additional professional building staff and allow for the remediation of deferred maintenance. In turn, this improves the building's curb appeal and increases the value of the building's office condominium units.

Rudder Property Group recently surveyed the common charges of 42 office condominium buildings in New York City. As of April 2019, office condominium common charges averaged $8.38 per rentable square foot (RSF) city-wide. The average common charges for class A buildings is $9.86/RSF and $7.27/RSF for class B and C buildings, respectively. The average common charges for buildings over 150,000 RSF is $8.71/RSF, and $7.41/RSF for buildings under 150,000 RSF.

However, it is worth noting there are instances where low common charges are not a result of neglect. For example, buildings with a hands-on board of managers can reduce the role of the property management team while maintaining the quality of the building. Some building improvements can result in lower common charges, including automating freight elevators and installing highly efficient building mechanicals, such as a fire alarm and sprinkler system, boiler, and HVAC systems.

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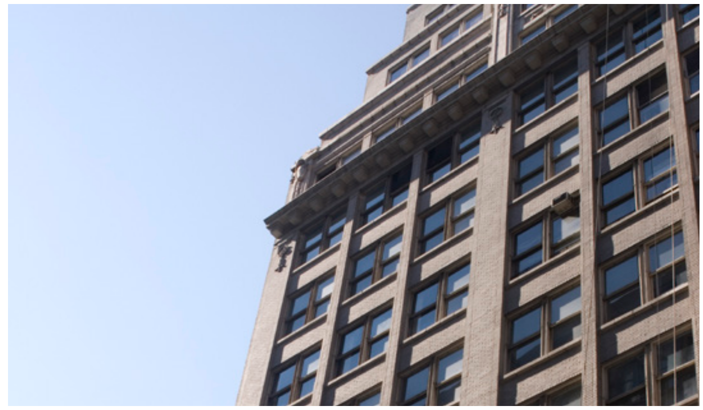


The common charges at 70 West 36th Street are $7.30/RSF

There are office condominium buildings with extraordinarily high common charges, yet they do not offer the benefit of improved building operations and curb appeal. This is typically due to poor management, an underlying mortgage, land lease payments, unit-owner related litigation and/or a variety of other possibilities.

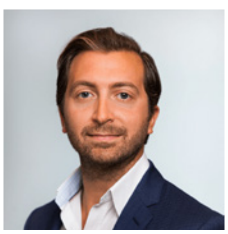
Office condominium buildings should seek to strike the right balance of an attractive presence with an efficient infrastructure that is well maintained with professional management—while keeping common charges in line with other comparable buildings.

Below is a list of common charges in a variety of different office condominium buildings.

Address	Common Charges	Building Size	Building Class
633 Third Avenue	$8.50/RSF	1,013,629 RSF	A
70 West 36th Street	$7.30/RSF	151,000 RSF	B
40 Rector Street	$7.00/RSF	575,187 RSF	B
36 West 44th Street	$6.79/RSF	185,000 RSF	B
545 West 45th Street	$6.10/RSF	134,200 RSF	C

At Rudder Property Group, we encourage all buyers to research each property, consider your needs and also the impression a properly maintained building will have for both clients and staff coming to the building. Rudder Property Group ensures each client understands these factors, including the history of each property, and can help you make the smart decision for your business investment.

Hidrock Properties and Rudder Property Group's recent office condominium conversion at 35 West 36th Street



LEGAL CORNER - CONVERTING AN OFFICE BUILDING TO COMMERCIAL CONDOMINIUMS

Rudder Property Group sat down with Shaun W. Pappas, Partner of Starr Associates LLP—one of New York's pre-eminent law firms providing comprehensive legal representation for the real estate industry—to learn more about the process of converting an existing office building into commercial condominiums.

How long does it take to convert an office building into office condominiums for sales?
Typically a commercial condominium offering plan takes about 3 to 5 months to be accepted by the Attorney General's office (AG). There is a comment stage after the offering plan is submitted where the AG can request additional information or clarity on the property and the disclosures made.

What consultants are needed to execute this process?
The best way to ensure a smooth conversion process is to assemble a team with experience converting properties to condominiums. To successfully execute an office condominium conversion you'll need an architecture firm (to provide a building condition report), tax attorneys (to provide tax projections), income tax attorneys (to provide an opinion on mortgage deductions), budget experts (to create the initial budget for the property) and brokers (to certify common interest and conduct sales efforts).

How do residential and office condominium plans differ?
They are actually somewhat similar. The biggest difference is that an occupied commercial building falls under a Part 20 Offering Plan (AG regulations), which allows for a faster review and comment stage. An occupied residential building is a Part 23 Offering Plan and takes about six more months for review and approval and has a multitude of residential tenant protections and requirements to adhere to.

In addition to standard condominium plans, what are other options for conversion?
A commercial land owner can also submit a no-action letter for faster approval. However, this is typically only permitted to create two- to three-unit condominiums where the owner is not making a public offering but has a targeted purchaser who is a sophisticated investor and thus does not require protection of the Martin Act and AG regulations.

What are the costs of converting?
The cost is generally around $100,000.

What's the difference between an office co-op and an office condominium?
If you own a condominium, your unit and a percentage of the common elements belong to you. The Unit is a deeded interest. A co-op owner, often called a shareholder, does not own the physical unit. In fact, we call that person a tenant under a proprietary lease. The co-op—which is usually a corporation consisting of all the shareholders—owns the entire building, including all of the individual units. Each co-op owner holds shares in the association (just like owning shares in any other corporation) under the "proprietary" lease. That lease spells out the rights and responsibilities of the owner, as well as the obligations and duties of the association.

Are there any forthcoming changes coming to the condominium conversion process?
The residential real estate world was changed dramatically after Governor Cuomo signed new legislation related to rent regulation reform. Part of this legislation applies to changes made to the conversion of occupied residential rental buildings, which makes it significantly more challenging to declare your offering plan effective if there are tenants in place at the time the offering plan is accepted -- there is now a requirement that 51% of tenants in occupancy on the date the offering plan is accepted for filing must agree to purchase dwelling units before the offering plan can be declared effective. The good news is that the recent reforms to the General Business Law as they relate to the condominium conversion process in New York do not impact conversions to commercial condominiums..

What is a CPS-1?
The CPS-1 is a cost effective tool to test the market prior to submitting an offering plan. It permits an owner to set up a website and solicit interest from the market on the condominium conversion. The owner cannot enter into any deals or contracts but can get a better understanding of the appetite for the project from a market perspective.

What if you don't sell the entire condominium?
This is the best news. The owner can retain the unconditional right to rent rather than sell units. So long as the owner sells the minimum number of 15% required under the AG regulations, the owner can then rent the remaining units in perpetuity.

For more information about Starr Associates LLP and its services surrounding condominium conversions, please visit www.starr-lawfirm.com

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, the principals of Rudder Property Group have 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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