

The Office Condominium Conversion



Rudder
Property Group

Table of Contents

Introduction	5
How Property Owners Benefit From Conversions	6
Strong Demand From Buyers	8
Who Are the Buyers?	9
RPG Conversions Experience	10
RPG Office Condominium Conversion Projects	12
Historical Office Condominium Conversions	14
Case Study	17
Timeline of an Office Condominium Conversion	18
Frequently Asked Questions	19
Contact	20

THE PARTS ARE OFTEN WORTH MORE THAN THE SUM

In our 10-plus years of selling New York City office condominiums, we've seen nonprofits and businesses alike pay premium prices to own office space. As demand continues to outweigh supply, investors and property owners benefit from selling office condos individually versus buildings outright.

Introduction

Rudder Property Group is New York City's only commercial real estate firm focused exclusively on the sale of office condominiums. With office condos comprising only 2% of New York City's total office market, it's a niche market where few can match the knowledge and experience of the RPG team. Our 10-plus years' experience ensures optimal pricing and deal terms for the investors and developers we represent.

The RPG team has closed office condominium transactions valued at more than \$1 billion and two million square feet.



Michael Rudder, Principal of Rudder Property Group, brings extensive transaction experience and in-depth knowledge of New York's office condominium market. Michael has been involved in the acquisition, conversion and sales of over two million square feet of New York office condominiums, including 35 West 36th Street, 20 West 33rd Street, 866 United Nations Plaza, 125 Maiden Lane, 70 West 36th Street and 131 West 33rd Street. Prior to forming Rudder Property Group, Michael spent over eight years as the Director of Office Leasing and Sales with Time Equities, Inc. Michael is the Chairman of the REBNY Sales Brokers Committee, a former board member of YM/WREA and a founding member of the St. Jude's Real Estate Committee.



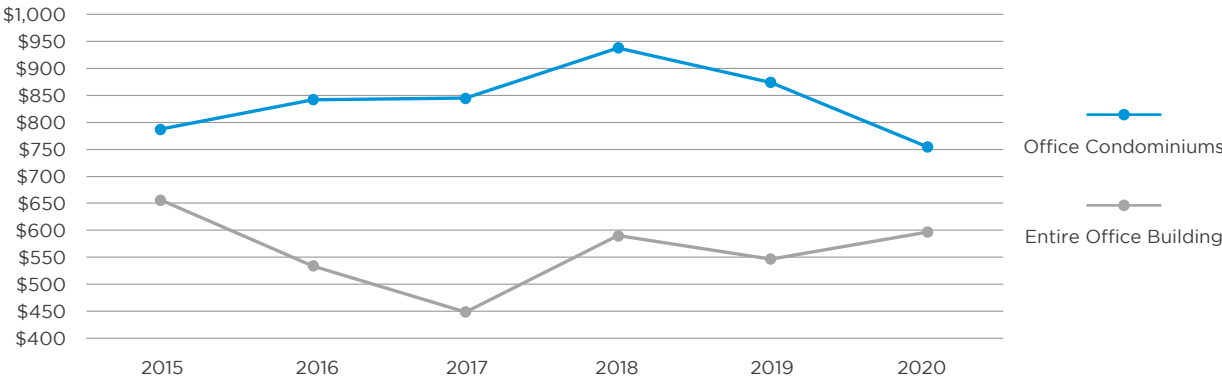
How Property Owners Benefit From Conversions

While office condominiums represent only 2% of Manhattan’s 500 million-square-foot office market, demand is far greater. Demand outweighs the available supply as businesses, nonprofits, foreign governments and medical professionals alike realize the many benefits of office condominium ownership. In contrast to a traditional office leasing strategy, an office condominium conversion provides real estate investors and developers a higher rate of return in a shorter period. This helps investors and developers win more deals by being the highest bidder on office building acquisitions.

Return on Investment

Office condominiums typically sell for 35% more per square foot when compared to the price per square foot of the entire office building. This is driven by two key factors. The first is scarcity of office condominiums, coupled with the high demand from businesses and organizations looking to own their space. Second, owner/occupiers can justify paying a higher price than investors. Together, these create an exceptional opportunity for investors and developers.

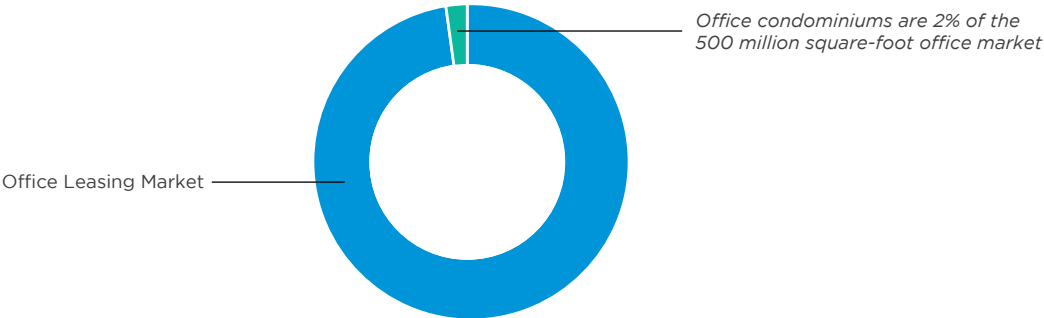
Price per Square Foot Comparison
Office Condominiums vs. Entire Office Buildings



Demand Outweighs Supply

Traditional office leasing is an ultracompetitive market. In a sea of office buildings offering comparable amenities, it can be hard to stand out, and leasing availabilities are a dime a dozen. In contrast, office condominiums are rare and highly sought after. With no new office condominium conversions in the pipeline, the supply/demand imbalance will continue—which presents an opportunity for investors and developers to stake their claim in this growing and profitable market.

% of the New York Office Market



Flexibility

In a traditional office investment, you have limited options to generate returns. You can sell, hold or refinance. With office condominiums, you can break your singular investment into multiple pieces, providing you flexibility to pursue four investment scenarios:

Scenario 1: Full Sellout

Sell all the office condominium units over time to owner/occupiers.

Scenario 2: Partial Sellout

Start by selling the vacant or otherwise undesirable units to owner/occupiers. This allows the sponsor to pay down their debt and lower their basis. The sponsor will then maintain ownership of the occupied, desirable units and keep collecting rent. When additional capital is needed, the sponsor can sell more units and/or refinance the remaining unsold units.

Scenario 3: Partial Sellout/Bulk Sale

Sell most or all of the vacant units to owner/occupiers and then sell the remaining occupied units as a bulk sale to an investor.

Scenario 4: Investor Units

Sell the occupied units one by one to small investors at premium prices.

Low Risk

The sponsor can gauge the interest of the market while the condominium conversion process is still underway. The Attorney General refers to this as a CPS-1 filing, or a “test the market” period. It takes less than 30 days and \$10,000 to obtain a CPS-1 filing. If the sponsor isn’t happy with the level of interest or decides to sell the property outright, the condominium conversion process can be abandoned at any time. The legal, architectural, and filing costs of a full condominium conversion are estimated to be less than \$200,000.

If the building will only be divided into several condominium units, the sponsor can file a “no-action letter” with the Attorney General, which is quicker, easier, and less expensive than a full condominium conversion plan.

Brand Exposure

When a Manhattan office building sells, you’ll typically see a small blurb in the news but rarely more, as it’s a common occurrence. On the other hand, an office condominium conversion is rare, thus often generating significant coverage and often in top-tier publications like the New York Times. Investors or developers embarking on an office condominium conversion have an opportunity to establish their brand as one that’s forward-thinking, creative and contrarian.

Strong Demand From Buyers

Owner/Occupiers

Owning office space holds several advantages over leasing, and office space users are increasingly recognizing these benefits. We are seeing an increase in 'traditional' businesses exploring office ownership. If more office condominiums were available, more office users would gravitate toward office ownership for numerous reasons.



Occupancy Cost Savings

The annual cost of condominium ownership is less than the cost of leasing over a five to 10-year period. Additionally, most nonprofit and government organizations are exempt from paying real estate taxes on property they own, including office condominiums. Nonprofits must pay real estate taxes while leasing.



Stabilized Occupancy Costs

Owner/occupiers are insulated from the escalating and unpredictable costs of leasing office space. An owner/occupier's occupancy costs remain stable and predictable, allowing for precise expense projections and accurate budgeting; whereas office tenants are subject to the volatility of the leasing market and the unpredictability of landlords.



Capital Cost Savings

From office furniture to glass conference rooms, designing and building an office space requires a significant investment. When an office space user cannot renew its lease, it loses this investment and must then move and make another such investment. By owning its office space, owners/occupiers can avoid this expense time after time and have an opportunity to brand their space in alignment with their mission and values.



Attractive Financing Options

A variety of financing options exist, making office condominium ownership more affordable for businesses and nonprofit organizations. Interest rates remain low, and borrowers only have to front a small amount of money, as they can often find SBA loans as high as 90%, inclusive of construction costs.



Selling for a Profit

The average price per square foot has increased by 45% over the past 10 years (2011 - 2020). Every owner/occupier who has sold their office condominium in the past 10 years has done so profitably—even throughout downturns.

Investors

With the wild fluctuations in the stock market, investors look for a secure place to put their money. Stable, predictable investments are hard to find. One of the most secure investment vehicles is an income-producing office condominium, which often delivers returns that far exceed Wall Street.

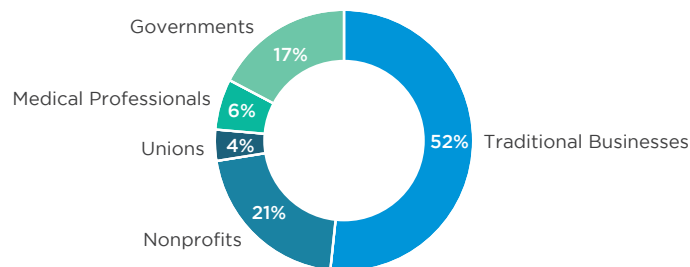
Who Are the Buyers?

Office condominiums have long been popular with certain sectors including government organizations, nonprofits, doctors, dentists and jewelers. High buildout costs for medical spaces make owning space a logical answer for medical professionals. And with a need for safes and extra security, jewelers have long opted for owning space, too.

Today, we are seeing a variety of other stable and ‘traditional’ businesses and professionals—such as law firms, media firms and real estate brokerages—exploring office condominium ownership. In the last five years, the largest purchasers of Manhattan office condominiums have included traditional businesses, nonprofits, unions, medical professionals and governments.

Industry	Square footage purchased over the past 5 years
Traditional Businesses	783,545
Nonprofits	315,335
Unions	58,271
Medical Professionals	95,423
Governments	262,918
Total	1,515,492 RSF

Percentage of Recent Purchasers by Industry



Notable Office Condominium Owners



US Fund for UNICEF
125 Maiden Lane
75,000 RSF



Ziff Brothers Asset Management
420 Fifth Avenue
33,000 RSF



Navillus Contracting
633 Third Avenue
20,000 RSF



Cape Advisors
375 Greenwich Street
8,600 RSF



Local 79
131 West 33rd Street
20,000 RSF



United Arab Emirates
305 East 47th Street
15,250 RSF



SAGE
305 Seventh Avenue
16,400 RSF



The Real Deal
450 West 31st Street
11,500 RSF



Practice Builders Medical Management
131 West 35th Street
7,800 RSF



Pem America
70 West 36th Street
16,000 RSF

RPG Conversion Experience

RPG has helped guide numerous investors and developers throughout the entire office condominium conversion process. With involvement in 75% of Manhattan’s office condominium conversions totaling more than 2 million square feet, RPG is the established and experienced market leader.

RPG’s experience includes:

Acquisition Underwriting and Capital Sourcing

RPG helps underwrite acquisitions by using our proprietary data, understanding of the market and expertise to analyze likely returns. Additionally, we create an institutional-quality offering memorandum to help entice investors and lenders to the project.

Legal

RPG works closely with legal teams to prepare the condominium offering plan and guide owners throughout the entire approval process with the Attorney General. RPG will either work with your attorney or introduce you to law firms specializing in condominium conversions. RPG can also introduce you to ancillary consultants experienced in conversions to ensure a quick and seamless process.

Sales and Marketing

RPG will create an institutional-quality marketing campaign for the converted condominium units. As New York City’s only commercial real estate firm focused exclusively on the sale of office condominiums, RPG has sold more square feet of office condominiums than any other brokerage firm in NYC. We use our contacts, proprietary data and techniques refined over the past decade to sell office condominiums at the highest price in the shortest amount of time. Please see examples of our marketing at www.rudderpg.com/marketing.

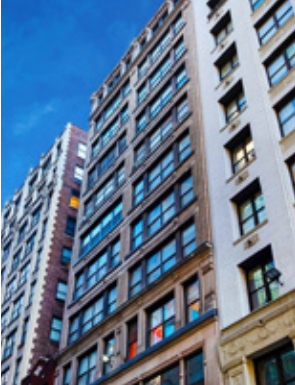
Notable RPG Clients





35 West 36th Street

RPG Office Condominium Conversion Projects



35 West 36th Street
Year Converted: 2020
Sponsor: Hidrock Properties
RBA: 81,000 RSF

NOTABLE SALE
Sale Date: Under Contract
Unit: E. 8th Floor
Size: 6,742 RSF
Price: \$695/RSF
Purchaser: TBD
Seller: Hidrock Properties



866 United Nations Plaza
Year Converted: 2014
Sponsor: Meadow Partners
RBA: 471,000 RSF

NOTABLE SALE
Sale Date: January 2020
Unit: P. 5th Floor
Size: 6,336 RSF
Price: \$966/RSF
Purchaser: Mission of Lebanon
Seller: The Carlyle Group



125 Maiden Lane
Year Converted: 2006
Sponsor: Time Equities
RBA: 368,900 RSF

NOTABLE SALE
Sale Date: June 2008
Unit: E. 4th Floor
Size: 25,615 RSF
Price: \$450/RSF
Purchaser: The Republic of Trinidad & Tobago
Seller: Time Equities



131 West 33rd Street
Year Converted: 2008
Sponsor: Time Equities
RBA: 185,000 RSF

NOTABLE SALE
Sale Date: March 2018
Unit: E. 7th Floor & P. 8th Floor
Size: 19,105 RSF
Price: \$945/RSF
Purchaser: Local 79
Seller: Progressive Credit Union

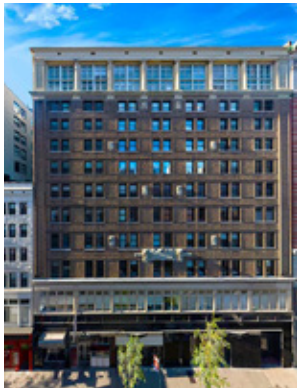


70 West 36th Street

Year Converted: 2007
Sponsor: Time Equities
RBA: 151,000 RSF

NOTABLE SALE

Sale Date: January 2019
Unit: P. 5th Floor
Size: 3,000 RSF
Price: \$925/RSF
Purchaser: Dr. Nancy Lau
Seller: Time Equities



20 West 33rd Street

Year Converted: 2016
Sponsor: The Carlyle Group
RBA: 176,750 RSF

NOTABLE SALE

Sale Date: October 2018
Unit: E. 7th Floor
Size: 13,998 RSF
Price: \$920/RSF
Purchaser: Glocap
Seller: The Carlyle Group



345 East 37th Street

Year Converted: 2016
Sponsor: The Carlyle Group
RBA: 105,640 RSF

NOTABLE SALE

Sale Date: June 2018
Unit: 203 & 204
Size: 19,200 RSF
Price: \$734/RSF
Purchaser: Turtle Bay Music School
Seller: The Carlyle Group

Historical Office Condominium Conversions



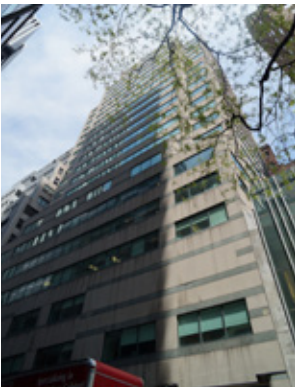
633 Third Avenue
Year Converted: 1995
Sponsor: Travelers Insurance
RBA: 1,084,761 RSF

NOTABLE SALE
Sale Date: January 2019
Unit: P. 13th Floor
Size: 3,866 RSF
Price: \$905/RSF
Purchaser: Prasad Cosmetic Surgery
Seller: Comm5 Setai



420 Fifth Avenue
Year Converted: 1992
Sponsor: Hammerson Property Management
RBA: 620,500 RSF

NOTABLE SALE
Sale Date: May 2019
Unit: E. 7th Floor
Size: 33,058 RSF
Price: \$825/RSF
Purchaser: Mediterranean Shipping Company
Seller: Witkoff Group



55 East 59th Street
Year Converted: 1984
Sponsor: Cozwill Associates
RBA: 309,799 RSF

NOTABLE SALE
Sale Date: October 2014
Unit: P. 15th Floor
Size: 12,034 RSF
Price: \$1,155/RSF
Purchaser: MS Aerospace
Seller: Monte Dei Paschi Di Siena



40 Rector Street
Year Converted: 2010
Sponsor: Philips International
RBA: 575,187 RSF

NOTABLE SALE
Sale Date: November 2017
Unit: E. 15th Floor
Size: 31,142 RSF
Price: \$680/RSF
Purchaser: United Cerebral Palsy Association
Seller: Philips International



633 Third Avenue



Case Study

Office Condominium Conversion of 866 United Nations Plaza



In 2013, Meadow Partners purchased 866 United Nations Plaza, a 471,000-square-foot office building, from Vornado for \$200 million or \$425 per square foot. Meadow financed the project with \$50 million cash down and \$175 million in debt.

Rudder Property Group represented Meadow Partners in the conversion and sale of the building's 100 office condominium units. Meadow initially sold 46 units for \$112 million. The 46 units totaled 136,000 square feet, making the average sale price \$821 per square foot.

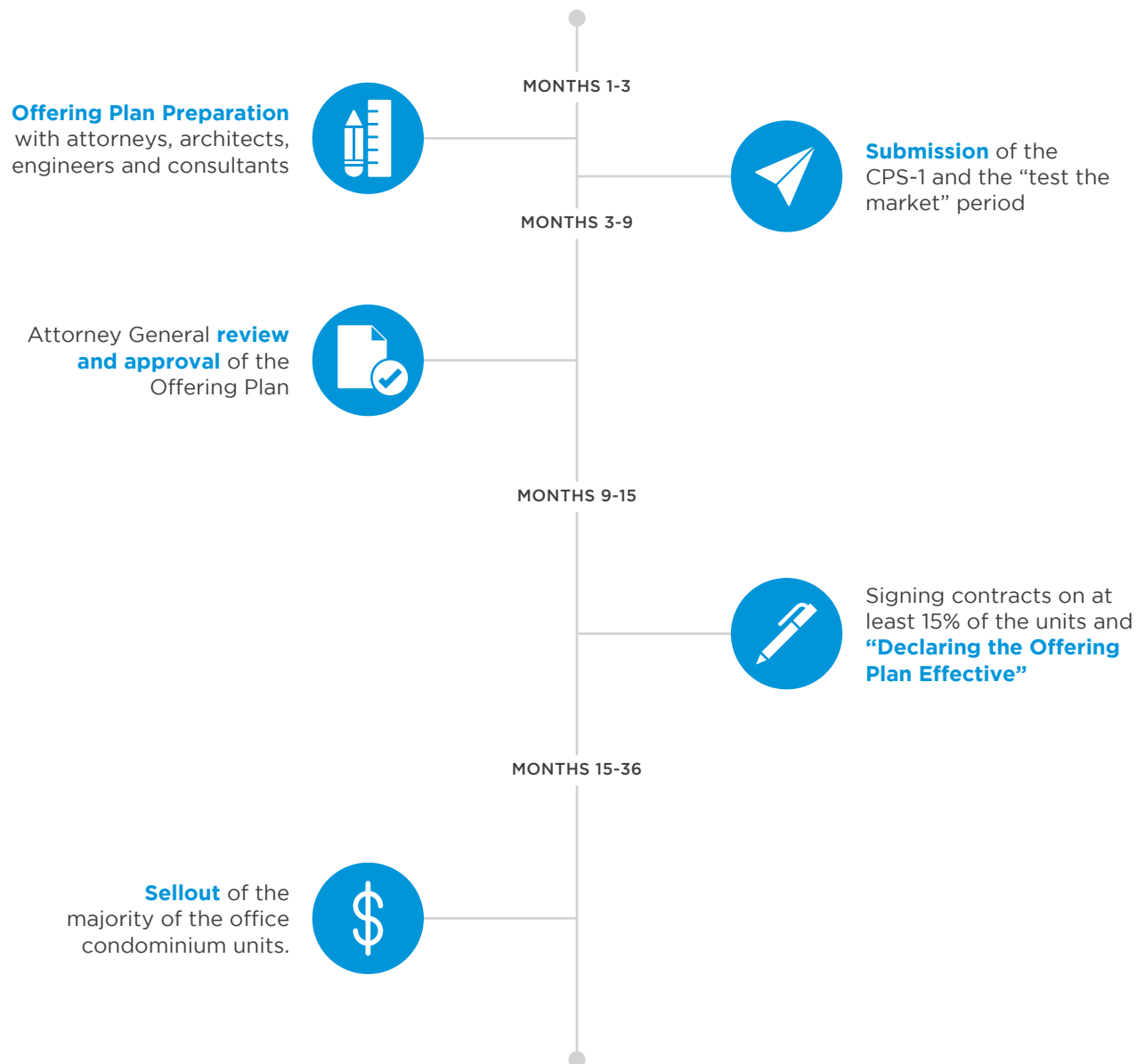
Meadow then sold the remaining 54 sponsor units as a bulk sale to The Carlyle Group for \$218 million, or an average of \$652 per square foot.

Combined, the sellout of the individual and bulk sale units totaled \$330 million, or an average of \$701 per square foot.

After paying back its loan, Meadow Partners earned \$155 million on its initial investment of \$50 million for a return of more than three times its investment in only 39 months.



Timeline of an Office Condominium Conversion



Frequently Asked Questions

Q: How long does it take to win regulatory approval for the conversion of a building to office condominiums?

A: It takes approximately nine months to prepare and submit an offering plan and receive Attorney General approval.

Q: What are the costs of regulatory approval?

A: The cost of the preparation and submission of an offering plan is typically under \$200,000.

Q: Are office condominiums sold with a loss factor?

A: Yes. Office condominiums are sold with the industry standard 27% full floor loss factor, and 32-38% for a partial floor.

Q: What is the process to start closings?

A: After the condominium offering plan is approved by the Attorney General, you need at least 15% of the number of units under contract prior to “Declaring the Plan Effective” and beginning closings.

Q: What condition are office condominiums sold in?

A: Office condominiums are sold in their “as-is” condition. Any improvements to the units are made by the purchaser, after closing, at their own expense. Unlike leasing, the sponsor does not contribute toward the construction of the unit.

Q: How does the condominium board work?

A: A condominium board is formed by the sponsor and is typically comprised of seven unit owners including the sponsor. The sponsor typically maintains control of the condominium board until a majority of the units are sold.

Q: How are common charges and real estate taxes calculated?

A: Annual common charges typically range between \$15-22 per rentable square foot depending on the asset. The cost of operating the building is split proportionately on a per square foot basis, by the unit owners.

Q: Who are the lenders for office condominium conversions?

A: Lenders who typically provide financing to residential condominium developers often provide financing on office condominium conversions. Several recent office condominium conversions were financed by Ladder Capital and M&T Bank.

Q: What consultants are needed to execute an office condominium conversion?

A: To successfully execute an office condominium conversion, you’ll need an architecture firm (to provide the floor plans and elevations), an engineering firm (to provide the building conditions 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 sales brokers (to certify common interest and conduct sales efforts).

Contact

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