



The RPG Guide to Office Ownership



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Ownership

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NEW YORK OFFICE CONDOMINIUM MARKET OVERVIEW

Office condominiums exist in nearly every market in the US and are particularly prevalent in Europe and Asia. However, they have been a small niche in New York City. Office condominiums represent only 2% of the 500 million-square-foot office market.

The New York City office condominium market is made up of 103 buildings, totaling 11.2 million square feet. From selecting the right property to closing costs and ongoing obligations, there's a lot to consider in the office condominium buying process. Therefore, we've created a complete guide to office ownership to put you on the path to success to owning an office condominium in New York City.

Why Buy Office Space

Office condominium ownership reduces occupancy costs, increases equity and secures a permanent space for your business or organization. Some of the key advantages to office condominium ownership include:



Occupancy Cost Savings

The annual cost of office ownership is less than the cost of leasing. Current market lease rates far exceed current condominium carrying costs, which includes annual common charges and real estate taxes. Additionally, most non-profit and government organizations are exempt from paying real estate taxes on property they own, including office condominiums. They must pay real estate taxes when leasing office space.



Stabilized Occupancy Costs

Office condominium owners are insulated from the escalating and unpredictable costs of leasing office space. An office owner'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 unpredictability of landlords.



Capital Cost Savings

From office furniture to glass conference rooms, designing and building an office space requires a significant investment. When a business cannot renew its lease, it loses this investment and must then move and make another such investment. By owning office space, businesses can avoid this expense and justify a high-end buildout. This is on top of having control of what your space looks like without having to request permission from building ownership.



Attractive Financing Options

A variety of financing options exist to make owning an office condominium more affordable for businesses and non-profit organizations. Interest rates are at record lows, and borrowers can often find loans as high as 90% for SBA loans, inclusive of construction cost.



Selling for a Profit

Historically, the value of the office condominium market has always increased over a 10-year period. Every owner/occupier who has sold their office space over the past 10 years has done so profitably.



Investors

With the wild fluctuations in the stock market, investors look for a secure place to put their money. Stable, predictable investments can be challenging to find. One of the most secure investment vehicles is an income-producing office condominium.

Case Studies

Office condominiums have existed in New York for more than 40 years, but the past decade has shown an acceleration of growth, demand and acceptance. The average price per square foot has increased over the past 10 years when comparing the first and second halves of the decade. From 2012 to 2021 the average price per square foot was \$724.



70 West 36th Street

Amikam Paras, a jeweler, purchased a 5,429-square-foot office condominium at 70 West 36th Street for \$2,516,140, or \$464 per square foot. After owning and occupying their space for eight years, the company sold their space for \$5,020,900, or \$925 per square foot.

When comparing this against similar leases signed in this area during the same time, Amikam and Paras would have signed a lease for \$31 to \$40 dollars per square foot. By owning their space and capitalizing on the asset's appreciation, Amikam Paras saved approximately \$2,146,913 over the eight-year period.



820 Second Avenue

To highlight the appreciation in pricing over the past decade, we compared two office condominium sales at 820 Second Avenue.

In September 2009, Pierre Funding Corporation purchased unit 7C, a 3,609-square-foot office condominium for \$1,700,000, or \$351 per square foot.

In September 2019, Heritage Way Advisors purchased unit 13C, a 1,197-square-foot office condominium for \$900,000, or \$752 per square foot.

This reflects a 114% increase in sales price per square foot over the 10-year timeframe.

When Not to Buy

Buying office space is an attractive option for many businesses, but it is not for everyone. A few key considerations to consider:

Do You Foresee Rapid Growth or Contraction?

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.

Are You Prepared to Finance a Down Payment?

Buying commercial space will initially cost far more upfront. If you need capital for research and development or making renovations or tech updates, it may not be the best idea to tie up your funds in a down payment.



Who is Buying Office Condominiums?

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

Today, we are seeing a variety of other businesses and professionals, such as law firms, media firms and real estate brokerages, exploring office condominiums. In the last five years, the largest purchasers of New York City office condominiums have included traditional businesses, non-profits, unions, medical professionals and governments.

Some recent buyers include:



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



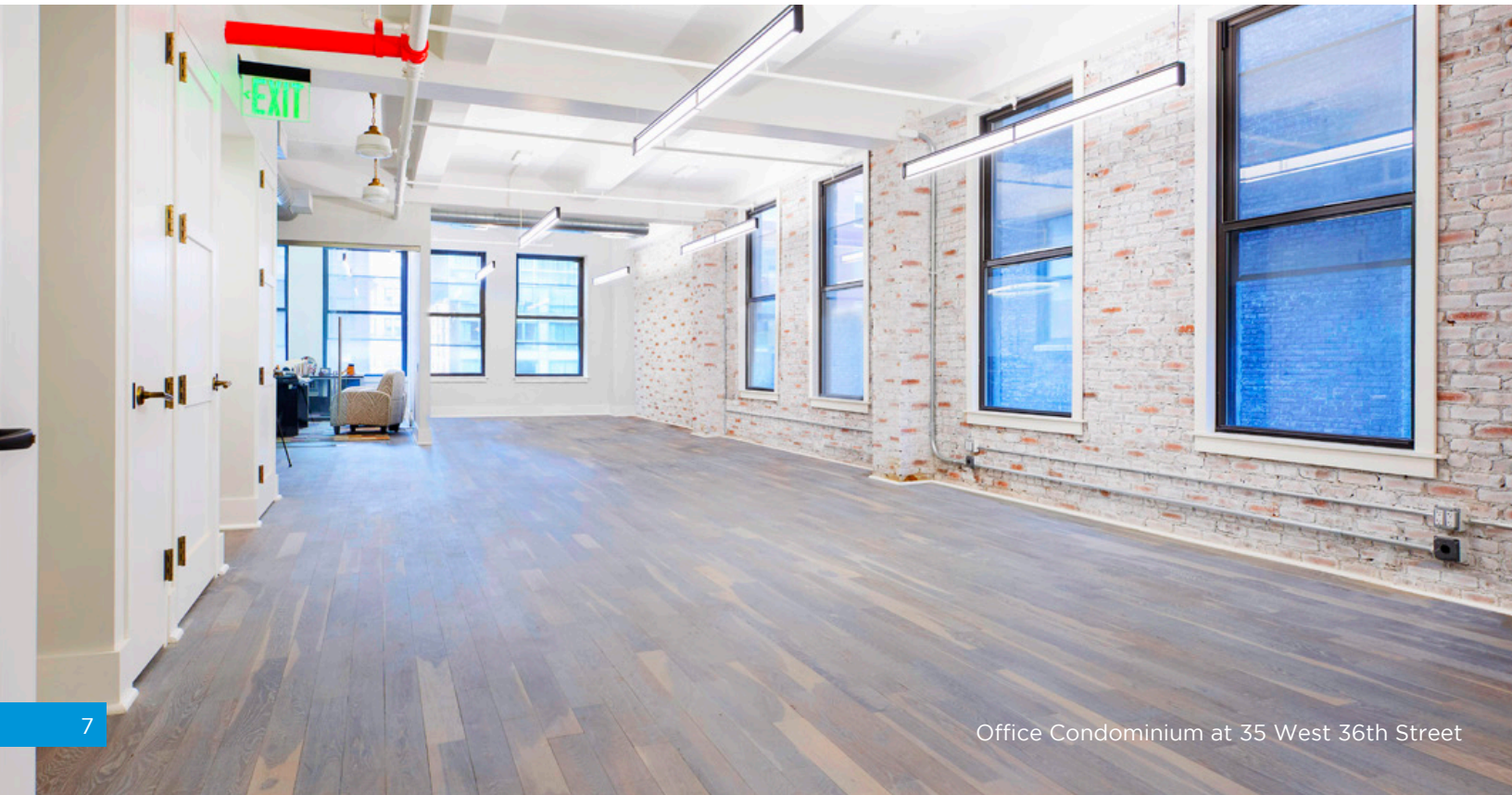
The Real Deal
450 West 31st Street
11,500 RSF



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



Pem America
70 West 36th Street
16,000 RSF



Office Condominium at 35 West 36th Street

How to Buy an Office Condominium

Buying office space can be a complex undertaking, and there is no one-size-fits-all strategy. However, working with an office condominium specialist will help you undertake the appropriate analyses, lay out all options and discuss scenarios, all while taking into account real estate market trends.

If office ownership is right for your business, RPG will guide you through the office condominium buying process from start to finish.

1. Don't Go it Alone

Office condominium ownership is a niche market in New York City, meaning you need a trusted team of experts whose expertise and knowledge will help you make an informed decision. At RPG, office condominiums and office cooperatives are all we do—all day, every day.

2. Get Pre-Qualified for a Mortgage

Before beginning your search, get pre-approved for a loan, unless you plan to pay cash. RPG can connect you to lenders and/or mortgage brokers. Based on your business's revenue and credit worthiness, the lender will determine how much the bank will lend you, which will help you hone in on a price range.

3. Visit Properties

Office condominiums and cooperatives are available in more than 100 buildings across all New York City submarkets. Consider which area best suits your business and what are your square footage requirements.

4. Negotiate

When you've located an office you love, you will put in an offer, which is a non-binding agreement to pay a certain price for the office condominiums. If your offer is lower than the list price, the seller will likely return with a counteroffer, which you can choose to accept, reject, or make another offer. RPG will work closely with you throughout the process to negotiate a fair offer and, ultimately, purchase price.

5. Do Your Due Diligence

Now it's time to dig into all aspects of the property to protect your interests and make sure it checks out. This includes, but is not limited to:

- Reviewing the offering plan, board minutes and condominium's financials
- Securing financing
- Verifying square footage with an architect
- Inspections
- Appraisal
- Title search
- Hiring an attorney

6. Sign the Contract

After agreeing on price and terms, both parties execute the contract. The purchaser will typically put down a 10% deposit with an escrow agent. This officially takes the property off the market. Simultaneously, the purchaser may sign an agreement with their lender, known as a commitment letter.

How to Buy an Office Condominium (cont'd)

7. Financing

Using our deep relationships with lenders, RPG can help demystify the financing process. Whether it is a conventional loan, an SBA loan, or non-profit tax-exempt bond financing, RPG leverages its relationships with lenders by assisting purchasers in obtaining these loans. RPG's experience and guidance are critical for facilitating a successful closing process for office condominium transactions.

8. Closing

During closing, ownership of the property is transferred from the seller to the purchaser.

Congratulations! The deal is closed, and the keys are in-hand. You're now an office owner. It's time to settle in and make your office your own.

Closing costs

Paid by Purchaser

Your Attorney	Approx. \$10,000
Mortgage Bank Fees	Points: 0% to 3% of loan amount
Mortgage Bank Attorney	Approx. \$10,000
Mortgage Recording Tax	2.8% of loan amount
Fee Title Insurance	Approx. 0.28% of Purchase Price
Common Charge Reserves	Up to two months of common charges
NYC/NYS Transfer Tax	3.275% of Purchase Price

What to Expect When Owning

When buying an office condominium it's important to understand what continuing expenses you can expect as an owner, including real estate taxes, insurance, repairs, upkeep and more.

Common Charges

Common charges are a shared cost between all unit owners within a building. They cover operating costs, management fees, and building staffing.

Annual common charges typically range from \$8.00-\$12.00 per rentable square foot depending on the asset. The cost of operating the building is split proportionately, on a per square foot basis, between the unit owners.

Real Estate Taxes

Each unit is taxed individually by New York City. There are some exemptions for certain owners, such as non-profit organizations and government entities.

Electric

Electric is generally metered directly to Con Edison. Electric costs are approximately \$2.50 per rentable square foot.

Cleaning

The unit owner is responsible for the cleaning of their own unit. The same cleaning company who cleans the building's common spaces is typically used by each unit owner.

Buildout Costs

Unlike in leasing where the landlord will construct office space to suit your company's needs, office condominium owners are responsible for the construction and buildout of their unit.

Maintenance and Upkeep

The individual unit owner is responsible for the maintenance and upkeep of their unit. For example, if a lightbulb or toilet stops working in the unit, it is at the sole expense and effort of the unit owner to fix it. In some cases, building management may help with minor issues.

Insurance

Unit owners must maintain an insurance policy. The building's insurance requirements are usually dictated in the building rules and bylaws.

Mortgage Payments

The unit owner is responsible for mortgage payments, which include principal and interest.

Frequently Asked Questions

What is the difference between an office condominium and office cooperative?

Like its residential counterpart, an office condominium is a portion of a building (a unit) that can be purchased. Owners have the flexibility to rent out their unit and make any alterations freely. An office cooperative unit is a collection of shares of stock in the cooperative corporation. The bought shares enable you to a proprietary lease of a unit.

How is pricing calculated?

RPG's bi-annual market report tracks every office condominium or cooperative sale in New York City. The report provides an understanding of how much you can expect to pay.

Are office condominiums sold with a loss factor?

Yes. Office condominiums are sold with the industry standard 27% full floor loss factor, and 32%-38% for a partial floor. You would experience the same loss factor in leasing office space.

In what condition are office condominiums sold?

Office condominiums are sold in their "as-is" condition. The buyer has the ability to alter the space to their liking, and construction costs can be included in the mortgage.

How does the condominium board work?

An office condominium board is similar to a residential condominium board. Typically, it is comprised of seven unit owners, including the sponsor.

How do I know if my company qualifies for a Small Business Administration (SBA) loan?

SBA typically defines small businesses as less than 500 employees and \$100 million in annual sales. The SBA can lend up to \$18 million towards the purchase of an office condominium. SBA loans are typical 90% loan-to-value with low interest rates.

How are common charges calculated?

Annual common charges typically range from \$8.00-\$12.00 per rentable square foot depending on the asset. The cost to operate the building is split proportionally on a square foot basis between the unit owners. In addition the unit owner must pay real estate taxes (if applicable), which are also \$8.00-\$12.00 per rentable square foot.

What are the financing options for office condominiums?

Many financing options exist that make owning an office condominium more affordable for businesses and non-profit organizations. Interest rates are at record lows, and borrowers can often secure loans as high as 90% loan-to-value, inclusive of construction costs.

What are the financing options for non-profit organizations?

There are a variety of advantageous financing options for non-profits who purchase and occupy their space. The most common option is tax-exempt bond financing, which is typically high loan-to-value and low interest rates.

Own Vs. Lease Analysis

RPG will prepare own vs. lease analyses highlighting the benefits of ownership.



OWN VS. LEASE ANALYSIS

420 Fifth Avenue, 4th Floor
Approximately 33,000 RSF

Purchase Information	
Initial Costs	
Purchase Price/RSF	\$975/RSF
Purchase Price	\$32,175,000
Construction Costs per RSF	\$100.00
Estimated Closing Costs	5.00%
Capital Appreciation Rate (annual)	5.00%
Carrying Costs	
Estimated Common Charges	\$15.50
Estimated Real Estate Taxes	\$10.50
Annual Escalations	2.50%
Mortgage Costs	
Loan Amount	70.00%
Downpayment	\$9,052,500
Interest Rate	5.00%
Term (years)	30

Leasing Information	
Lease Rate per RSF	\$70.00
Free Rent (months)	5
Annual Escalations	3.00%

Forecast of Cost to Rent		TOTAL	8.6% Discount Rate	Initial Cost	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Leasing Costs		\$25,519,061	\$16,549,605	\$0	1,347,500	2,379,300	2,450,679	2,524,199	2,596,625	2,677,923	2,758,261	2,841,009	2,926,235	3,014,026

Forecast of Cost to Own		TOTAL	8.6% Discount Rate	Initial Cost	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10 (with hypothetical sale)
Total Ownership Costs		\$4,983,011	\$5,899,267	\$14,561,250	2,308,868	2,330,318	2,352,304	2,374,840	2,397,939	2,421,616	2,445,885	2,470,760	2,496,257	-49,887,292

Forecast of Cost to Rent		TOTAL	8.6% Discount Rate	Initial Cost	Years 1 - 5	Years 6 - 10
Total Leasing Costs		\$25,519,061	\$22,653,626	\$0	11,301,604	14,217,457

Forecast of Cost to Own		TOTAL	8.6% Discount Rate	Initial Cost	Years 1 - 5	Years 6 - 10 (with hypothetical sale)
Total Ownership Costs		\$4,185,119	(\$8,226,580)	\$14,561,250	11,754,209	-40,052,774

Do not rely on the assumptions used in this analysis. Please consult your financial advisor. This is not a commitment to lend or lease. Financing scenario is based on sample financing. Other options may be available and results would vary accordingly.

Prepared by Rudder Property Group

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The RPG Advantage

Rudder Property Group is New York City's only commercial real estate brokerage and advisory firm focusing exclusively on the sale of office condominiums and office cooperatives. With office condominiums comprising only 2% of New York City's total office space market, it's a niche market where few can match the knowledge and experience of the RPG team. Our 20 years' experience ensures optimal pricing and deal terms for the sellers, purchasers, investors and developers we represent.

The RPG team has closed more than \$1 billion in office condominium transactions, totaling more than 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 RPG, Michael spent more than 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.



Justin Harris, Associate Director of Sales, brings RPG a team-oriented mindset and an investment sales background. Before joining RPG, Justin worked on the Development and Conversion Investment Sales team at CPEX Real Estate, a brokerage firm. Prior to CPEX Real Estate, Justin began his career in real estate at Keystone Equities in Manhattan and First Development Corporation in Long Island, where he worked on acquisition and development deals.



Resources

It is important to work with a team of experts who have your best interests in mind. The team's experience and guidance are critical to help facilitate a successful closing.

In our 20-plus years, we've developed deep relationships with service providers who will help demystify the office condominium purchase process.

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