

Going Condo at the Office

Office condominiums have never taken hold in the U.S. as they have in Europe and Asia, even during periods when rental rates have risen rapidly.

Owning office space can save companies money in the long-term, but buying requires large upfront costs. Most American companies would rather use that money for something else. But many foreign businesses and organizations believe buying is more economical and potentially a good investment.

A firm's decision about owning or leasing its space often comes down to "cultural preferences," explains Michael Rudder of Rudder Property Group, an office condo brokerage in New York. "I think many foreign cultures have a longer-term perspective and place a value on ownership. And I think American businesses might not think as long term."

That perspective could explain why in New York, the nation's largest office market, there has been no significant new supply of office condos since 2008—until this week.

On Monday, **Meadow Partners**, a private real-estate investment firm in New York, began selling condos at 866 United Nations Plaza, a six-story modernist glass building on 48th Street in Manhattan across from the United Nations headquarters.

Meadow received approval from the New York attorney general, who oversees the conversion of apartments and offices into condominiums, to convert the 40-year-old building in December. Last month the company began approaching existing tenants about its condo conversion plan. The building has 471,000 square feet of space.

If the bulk of its tenants convert, Meadow stands to make a tidy profit. The company acquired 866 U.N. Plaza a little over a year ago from **Vornado Realty Trust** for \$200 million, or \$425 a square foot. Meadow is pricing the condos at about \$1,000 a square foot, on average.

The building is currently leased almost exclusively by foreign governments and non-governmental organizations. The United Nations itself, along with consulates and missions of Chile, Japan, Finland and Kenya are among its 85 existing tenants.

Meadow Partners is wagering that the ten-

ants will want to own their offices rather than continue to rent.

"This is really a one-of-a-kind property in a one-of-a-kind submarket with a very specific tenant base," said Jeffrey Kaplan, managing partner of Meadow. "These missions and ancillary U.N.-related tenants—unlike others who struggle to sign a five-year lease because they don't know where they're going to be—these know."

Mr. Rudder, who is leading sales at 866 U.N. Plaza, said nonprofits and governments are particularly well-positioned to buy. Nonprofits receive special exemptions from real-estate taxes in many cities, including in New York. And governments tend to pay in cash and aren't dependent on bank financing, which can add to the cost of purchase.

The conversion of 866 U.N. Plaza comes as the supply of office condo space in New York has barely budged in five years and comprises just 2% of the city's 500 million square feet of office space, according to Rudder Property Group.

In the mid-2000s, it seemed that the office condo trend was finally taking hold after several well-publicized conversions in Chicago, New York, Seattle and Austin, Texas. At the time, the real-estate market was sizzling. But by the end of the decade, real estate was in disarray and the office condo trend fizzled.

Bert Scherb, co-founder of real-estate investment company Ameritus LLC, was on the front line. In 2005, he and his son began the conversion of an 18-story office building in Chicago's financial district. In the first year, he said he sold nearly 33% of the building—better than he expected. But as the economy began to slow, his sales ground to a halt.

Rather than deeply discounting prices, Mr. Scherb took his building's unsold space off the for-sale market and began leasing it again.

Ten years after he first converted the building, it is now 89% sold, occupied mostly by small service-focused companies.

Meadow's Kaplan says he doesn't have the patience to hold his 866 U.N. Plaza for a decade. His business plan is to exit the building by 2020, giving him five years to sell its space.



Jeffrey Kaplan's Meadow Partners is converting 866 United Nations Plaza to a condominium office.

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