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Sky-High Demand for Luxury

New York's Multimillion-Dollar Condo Market Booms

More than half the condos at 60 East 86th Street were sold in the eight weeks after sales opened. CreditArchpartners

Up, up and up. That is the answer to the question I have been posing lately: Where is the luxury condominium market headed?

At least, that has been the case in the last several months, where multimillion-dollar apartments have been snatched up hours after they hit the market and buyers have shelled out $1 million over the asking price to secure a winning bid.

At 151 East 78th Street, for example, contracts were sent out to buyers within 24 hours of the listings hitting the market in March, and a month after sales began, 11 of the 14 apartments were in contract at prices starting at $10 million. A few blocks to the north, more than half the units at 60 East 86th Street were sold in the eight weeks after sales opened, also in March, including a $20 million penthouse.

"I've never seen anything like it," said John Gomes, a broker with Douglas Elliman Real Estate. He has sold 21 of the 25 units at 215 Sullivan, a new development in Greenwich Village, the majority from a desk at his office in Chelsea. "The model apartment wasn't finished, and we were able to sell more than half the units just off of floor plans and finishing boards." Mr. Gomes and his partner, Fredrik Eklund, have sold $485 million worth of real estate so far this year, as much as they sold in all of 2013, he said.

At 151 East 78th Street, contracts were sent to buyers within 24 hours after the listings appeared, and most of the apartments were spoken for within a month. CreditWilliams New York

Frances Katzen, a managing director at Douglas Elliman, recently sold a listing to a buyer based in Los Angeles who paid $2.5 million for a loft on East 28th Street that he never saw. The buyer's broker toured the apartment with his client on FaceTime via his iPhone. "It was crazy — the other brokers were getting upset because they are trying to show their clients around while this guy was giving a tour on speakerphone," Ms. Katzen said.

Michele Kleier, the president of the brokerage firm Kleier Residential, said she and others "are playing catch up," adding, "I have more buyers than exclusives." At 151 East 78th Street, for example, Ms. Kleier had a buyer who had looked at a unit when sales started but was heading to Aspen, Colo., and wanted to think it over before making a bid. "By the time we called two days later, the unit was gone," she said. "They offered us another option, but the kitchen didn't have a window, so my buyer wanted to think that over, and by the time she decided, that, too, was gone."

The luxury market has been strong for some time, but it exploded in the first quarter, with prices jumping 45 percent to an average of $7.4 million from $5.1 million, according to data from the appraisal firm Miller Samuel. That is the largest year-over-year increase in six years. Driving the market has been a staggering lack of inventory. Just 174 new condominium units came to market in Manhattan in the first quarter, a 73 percent drop from the first quarter of 2013, when there were 640 new units, according to data from the Corcoran Sunshine Marketing Group. In all of 2013, there were about 2,500 new condominiums, a nearly 70 percent decrease from the roughly 8,000 new units at the height of the last real estate cycle in 2007.

And what has been coming on the market has been in boutique buildings with fewer than 50 apartments. In the first quarter, the 174 new units were spread across just 11 buildings, all of them with 35 or fewer apartments. In fact, since 2007, the average size of new buildings has shrunk by more than half, with an average of 38 units per building this year, compared to 80 units in 2007, according to data from Corcoran Sunshine. While there may be fewer and smaller buildings, the average apartment size in new condo developments has grown by around 23 percent. Perhaps reflecting the rising number of families choosing to stay in New York, the average size apartment now reaches 1,560 square feet, compared with 1,265 square feet in 2007, Corcoran Sunshine data show. "The velocity of sales has been historic," said Kelly Kennedy Mack, the president of Corcoran Sunshine. "That is because so few properties were introduced to the market over the last couple of years, so there is a lot of pent-up demand."

There are several reasons for the flood of boutique buildings, including the fact that after the downturn, financing was tight and many developers couldn't secure large enough loans to fund a big development. "It is also very difficult to find sites large enough to build big projects — they almost don't exist," said Miki Naftali, the chairman and chief executive of the Naftali Group, a development company. He added that boutique buildings are a favorite with developers because "they are less risky" — it is easier and faster to sell out a 25-unit building than one with 200 units.

While new condo developments often receive attention because of their high-profile buyers, lofty price tags and brand-name architects, the resale market for trophy mansions has also been surging.

"It is a very, very strong market," said Paula Del Nunzio, a broker at Brown Harris Stevens who specializes in ultraluxury properties. She recently had a listing for a home in the low-$20 million range, and in the first two days it was listed, she had shown it to 15 potential buyers. Two offered the full asking price, and the eventual winning bidder paid $1 million over asking. "The key is to have something that is unique, and then you can put a very strong price on it," Ms. Del Nunzio said.

But while sales of new developments and trophy properties are continuing apace, there is one sector that has "hit a wall," as one broker phrased it. Since April, the market for high-end co-ops and older condominiums priced from $8 million to $15 million has slowed, some brokers said. "The week around Passover and Easter, suddenly things went quiet," said Kirk Henckels, the director of private brokerage at Stribling & Associates. "The only explanation that I can come up with was that there had been a lot of pent-up energy, and it sated itself."

Frederick W. Peters, the president of Warburg Realty, has seen a similar pause. “It is critically important to distinguish between the new-development marketplace and every other marketplace, because they are not behaving the same way,” he said.

Still, so much in the market is anecdotal, with one broker reporting a far different experience from that of her colleagues. Ms. Kleier, for example, recently listed a co-op on Park Avenue in the mid-$9 million range. “I put it on the market for 25 percent more than what the last apartment in the building sold for,” she said. “Ninety-three people came to the open house and we sold it at ask the first day.”

But even developers who are churning out new condominium buildings don’t believe prices will continue to rise at the same frenzied pace. “If you look at the escalation of sales prices in the last year to year and a half, I don’t believe we will see that same escalation over the next one to two years,” said Mr. Naftali, who has a new condominium project at 210 West 77th Street that is expected to come to market later this summer.

“Prices won’t go down, but a year from now they won’t be up another 25 percent,” he said. “When I underwrite a new deal these days, I don’t assume a major escalation in price.”