

May 21, 2015

What could Gary do? Analyzing Extell's \$4.4B sellout at the Nordstrom Tower

With low basis, developer could reel in profits at \$7,000 psf pricing



From left: Rendering of Nordstrom Tower (credit: Smith + Gill), Gary Barnett (Credit: STUDIO SCRIVO) and rendering of One57

Developer Gary Barnett has sky-high ambitions for the Nordstrom Tower: Whether or not his condo tower at 217 West 57th Street becomes the tallest building in New York City, Barnett could break records if he comes close to his projected \$4.4 billion sellout.

Extell Development anticipates \$4 billion worth of apartment sales, according to the Wall Street Journal, which dug up Extell's regulatory filings on the Tel Aviv Stock Exchange, where it sold \$300 million worth of bonds. If the developer achieves its goal, it would comfortably eclipse the \$2.8 billion sellout projected at Vornado's 220 Central Park South, and double the \$2 billion sellout of Extell's own One57, located just half a block away.

Barnett has been on the defensive in recent months as sales slowed at One57. But sources said his low basis at the Nordstrom Tower is a boon to the project, which is expected to generate \$2 billion in profits, compared with One57's profits of \$1 billion, according to the regulatory filings. And while Extell only owns 12 percent of One57 — Abu Dhabi-based Aabar Investments and Tasameem Real Estate Company are major investors — it owns 87 percent of the 1.2 million-square-foot Nordstrom Tower.

A back-of-the-napkin calculation: A \$4 billion sellout for the 233-unit project means that the average price will be just north of \$17 million.

Sources who have seen Extell's plans for the tower say it has large floor plates, around 7,400 square feet. The building's 1,775-foot height — the subject of recent speculation — will also set it apart and the top floors will have 360-degree views.

Extell is likely to price units at Nordstrom Tower using comps from One57, sources said, where the sales average is \$6,772 per square foot, according to StreetEasy. (The \$100.5 million penthouse sold for around \$9,200 per square foot.)

Assuming floor plates of 7,400 square feet, and an average of \$7,000 per square foot, full-floor units could go for around \$50 million, calculated Jonathan Miller, president of real estate appraisal firm Miller Samuel.

Sources speculated that some floors would have two condos each, measuring around 3,700 square feet, with full-floor units higher up. Leonard Steinberg, president of Compass, noted that many super-wealthy buyers “love a large apartment with full services all on one floor.”

If that’s true, it’s likely that Nordstrom Tower will join the \$100 million penthouse club. “Based on the numbers, [Barnett] should have no problem achieving \$120 million, \$130 million and up,” said a source who reviewed Extell’s plans.

Currently, there are several penthouses asking \$100 million and up in Manhattan, including one at Vornado’s 220 Central Park South that is rumored to ask up to \$175 million. To date, Vornado has not listed prices for its four priciest units.

Industry leaders said 220 Central Park South’s prices will impact nearby developments, including Nordstrom Tower. Vornado CEO Steve Roth is setting a “new standard,” HFZ Capital’s Ziel Feldman said during an interview at *The Real Deal’s recent New Development Showcase and Forum*.

Of course, a lot depends on where the market stands.

Overall, the luxury market was a bit soft during the first quarter, according to data from Miller Samuel. The median price dropped 10.6 percent to \$5.1 million, and the absorption rate – defined as how many months it would take to sell all for-sale properties – climbed 42.4 percent to 17.8 months.

“There was more luxury product that came to the market and people had more choices,” said top-producing CORE broker Emily Beare. “There wasn’t the same urgency.”

And while Barnett is known as a smart and savvy developer, he’s been fielding criticism over the past year as sales have slowed at One57, despite the record-breaking \$100.5 million penthouse sale in January.

“[Nordstrom Tower] has twice as many units as One57 and One57 hasn’t sold out yet after five years,” said Miller. “It’s over my head. I don’t understand.”

Andrew Gerringer, managing director of new business development at the Marketing Directors, said developing an ultra-luxury condo in the Midtown corridor seems, to him, like “a bit of a risky proposition given today’s market.” He noted: “They’re obviously taking a calculated risk. It won’t be delivered for a couple of years,” he said. “Hopefully the market will be there for when the product gets built.”

However, Extell’s cost basis in the project is relatively low, since the developer began assembling the site in 2005. “Most likely, he bought the land somewhere in the \$300 to \$400 range,” said a source familiar with the plans. With land prices more than double that now, the source said Barnett’s “cost basis is about \$450 to \$500 less than anybody else’s.”

That gives Extell tremendous wiggle room on pricing. It also lets Barnett hedge against the current market, and undercut his competitors if the market turns.

“Gary is very much a value player,” said real estate attorney Ed Mermelstein. “He’s going to do well simply for the fact that he bought right, he builds well and he’s got a great product. Based on when it was purchased, he bought well.”