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NEW YORK BUSINESS

LANDMARK CONVERSION ON TRACK, BUT SALES LAG

Manhattan House At Last Gets Its Act Together

June 28, 2009

Earlier this month, nearly 150 tenants sipped cocktails and nibbled on hors d'oeuvres in Manhattan House's newly renovated 10,000-square-foot rooftop club. Both the upgrade and the sustenance came courtesy of O'Connor Capital Partners, the developer that has been battling to convert the landmark Upper East Side apartment complex into luxury condominiums.

"They are being more accommodating," says Kathy St. John, a member of the Manhattan House Tenants Group. "And we are being nicer."

After three years of lawsuits and sporadic skirmishing with tenants, O'Connor Capital's $1.1 billion conversion of the block-long, white-brick Manhattan House—one of the most expensive conversions in the city's history—is finally on track. The developer has recently retained a new broker and is aggressively marketing its apartments, for as little as $680,000 for a 556-square-foot studio. Meanwhile, rent-stabilized and market-rate tenants alike are enjoying the new club, fitness center and other facilities so much that they are even saying nice things about their landlord.

Getting to this point was anything but easy for the owner of the 575-unit 1950s-era complex that Grace Kelly once called home and Jackie Robinson's widow still does.

"We essentially negotiated a treaty," says Brian Fallon, a partner at O'Connor Capital.

Over the course of a year, he spent hours at the East 66th Street complex listening to tenants' concerns and issues. In the end, compromises were struck, agreements were inked, and O'Connor Capital sweetened the pot by throwing in a rent-free month for all participating tenants.

"The older residents were frightened and confused about how this conversion was going to affect them," says Ms. St. John. "Now they're feeling better."

Only one lawsuit

Previously, tenants claimed in and out of court that the developer had attempted to push them out the door, while others complained about the noise and debris the renovations created.

At this point, only one tenant lawsuit remains. It involves 22 market-rate tenants who are awaiting a ruling from the state appellate court on whether they can be evicted.

"We got off to a rocky start," says Jerry O'Connor, managing partner of O'Connor Capital. "But we have made traction."

O’Connor Capital is no stranger to ambitious projects. During the late 1990s, it revitalized Parkchester, a Bronx complex with 12,000 apartments. Founded in 1983, O’Connor has also developed more than 10 million square feet of mall space.

At Manhattan House, however, tenants weren’t O’Connor’s only problem. In 2006, O’Connor and developer N. Richard Kalikow bought Manhattan House for $623 million from New York Life Insurance Co. but soon fell to squabbling. O’Connor finally took sole ownership two years ago with the help of a $750 million loan.

In the three years it has taken to get Manhattan House to this happy point, however, the market has deteriorated dramatically. Sales at the complex officially began nearly 19 months ago. Since then, only 77 units have been sold, with another 13 in contract, according to public records.

Following the September financial meltdown of Lehman Brothers and others, sales stopped dead. Even worse, several buyers who had signed contracts began maneuvering to get out of them. O’Connor Capital declined to confirm sales activity.

Determined to press ahead in the crucial spring selling season, in February O’Connor Capital tapped Corcoran Sunshine Marketing Group to take over sales efforts from Prudential Douglas Elliman. To help that effort, the landlord also slashed apartment prices by 20%, according to Mr. O’Connor.

“We have been very busy,” says Anne Young, senior managing director at Corcoran Sunshine, which redesigned the building’s Web site and launched newsletters and brochures promoting Manhattan House. “We see a tremendous amount of interest.”

Currently there are fewer than 80 units on the market. One of the largest is a four-bedroom, 2,367-square-foot unit with a balcony, priced at $4.525 million. There are also plenty more to come—roughly 200 units that have yet to be renovated. Mr. O’Connor says work on the remaining units will resume when the available units are sold out.

“We are patient,” he says, adding that the firm is well-capitalized. “We are not squeezing nickels and dimes.”

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