

Converting Properties To Condominiums Or Residential Rental Buildings

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ing the current use/structure of the property.

The first step is to perform a financial analysis of the building in determining total expenses to achieve your conversion and projected profits. The biggest key in maintaining profit margin is not overpaying for a property when you initially acquire it. You have to consider construction costs, soft costs, closing costs (when you purchase, finance and sell) and add a contingency for unexpected costs of approximately 10% of your total budget. You must then factor in all of these expenses and add them to the purchase price of the property. From there you have to assess what the current square footage is, can you add additional useable square footage to the building, what are the comps on a price per square foot basis for a project of similar nature to yours, what is the current demand for such a product and what you anticipate demand and price per foot will be at the time of completion of the project. From there you can compare your total expenses with your projections to determine what your approximate profit margin will be.

Once you have these projections, the next step is to conduct due diligence to ensure that your project is feasible. This can require the services of several different professionals from zoning attorneys, real estate attorneys, architects, engineers, expeditors, etc. Most developers these days are not purchasing a property and simply maintaining its current configuration in converting it to a condominium building. A developer will likely want to see what available air rights there are with the building, what the floor to area ratio is and what the property is currently zoned for. From this you can determine how many floors you can add to the building, how far you can extend the building horizontally and the different uses you can utilize the building for. Additionally, you must look at what the property is currently being used as. For example, if the property is rent stabilized, rent controlled or being used for single room occupancy (SRO), then you have to take into consideration the expense of buying out the tenants or the risk of the tenants remaining in possession of their units and how this affects your rent roll projections or ability to sell the units.

An engineer's report is also mandatory in order to assess the structural integrity of the building and if you can perform your planned renovations. An environmental inspection is also advisable to ensure there are no toxic substances contained in the property. If the building has landmark status, you also have to inquire if your plans will be approved by the landmarks comity.

Once you have performed this analysis and decide to proceed with a condominium conversion project, you will have to draft an offering plan and have it approved by the attorney general's office before being able to sell any of the units in your building. An offering plan provides the general public and all potential purchasers with the required disclosures the attorney general finds necessary in order for consumers to be aware of all of the risks and procedures involved in purchasing a new development project. The beginning of an offering plan is a section called "Special Risks." This section outlines all of the risks associated with your specific project (i.e. lot line windows) and all the risks associated with committing to purchase an unseen product (i.e. construction issues, delays in closing, etc.). The first half of the offering plan will contain a "Schedule A" which provides for the square footage of the units, the initial offering prices, the projected common charges and the projected real estate taxes (with and without an abatement — if applicable). A budget for the first year of anticipated condominium operations is required.

This budget outlines the projected operational expenses of the building upon completion and how the current common charges listed in Schedule A (along with any other sources of revenue the building has) will cover all of the anticipated expenses.

The current market has a demand for condominium conversion projects and when handled in the right manner, the projects can be extremely profitable. Retaining the right professionals and conducting the proper due diligence are the keys to completing a successful conversion project.

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