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Low fees for new condos? Think again

Fees escalate as buildings juggle deluxe amenities, rising costs and ballooning payrolls

By Abby Luby

New construction condos that offer more amenities than five-star hotels not only come with hefty price tags at closing time — increasingly, they also come with rising monthly common charges.

The deluxe amenity packages that have become standard fare at new condos — things like health spas, dry-cleaning services and pet grooming — are one of the leading factors in the spike in condo fees, real estate attorneys and management companies said. Until now, condo fees have generally been modestly low compared to the maintenance charges at co-ops, which has made a good selling point.

Currently, while condo charges are still lower (partly because they

do not include real estate taxes), they are not the selling point they once were, especially because the luxe add-ons are coinciding with rising fuel costs, ballooning payroll fees, and increasing property insurance premiums and security expenses.

Michael Mendillo, president and CEO of Wentworth Property Management, said in the last two years more condos have introduced upscale, white-glove services. "Having your dog walked, getting tickets to a game and plays — those are all extra services," he said.

However, he added that while many prospective buyers look at how much common charges will cost, the fees are rarely a deal breaker, particularly as more buyers have expectations of luxury services. Mendillo said even the exterior look of a building has become important.

"The curb is important to the eye," Mendillo noted. "A building may look old and tired because of the power-washed building next door. All this drives up costs."

\$500 for breakfast

Real estate attorney Luigi Rosabianca noted that one condo he knows of in the Financial District recently began offering a continental breakfast in a common lounge, but cancelled the service after residents realized how much it was tacking onto their monthly fees.

"After three or four months, the owners realized it was costing them about \$500 to \$600 a day," Rosabianca said. "They figured out the yearly cost and are no longer serving breakfast."

He said the question buyers need to ask themselves is: "Do you buy into a building for a free cup of coffee, or would you rather have a balanced budget?"

It's not just the new condos that are being hit with rising costs. A lot of what is driving up bills are expenses that affect buildings of all ages and types.

Doug Heller, a real estate lawyer and a partner with Herrick, Feinstein LLP, said the price of heating oil, which condo boards have virtually no control over, is one of the biggest culprits.

"The worst increase I've seen has upped a condo budget about 15 percent," he said of a building on the Upper West Side. "It's the high fuel charges."

Michael Wolf, president of Midboro Management, said one 60-unit building that his firm manages on the Upper West Side saw its heating bill jump from 7 percent of its \$900,000 annual budget, in 2003, to 9 percent in 2007.

Plus, Wolf said: "You see a spike in fees from changing services, like adding a 24-hour doorman."

Labor costs are based on union contracts, which means that wages increase every four years. The last spike in that category was a year and a half ago, when 28,000 doormen, porters and other apartment building employees nearly went on strike before a contract was hammered out. That deal included 8.5 percent raises over the length of the contract for thousands of buildings in Manhattan, Brooklyn and Queens.

Mary Ann Rothman, executive director of the Council of New York Cooperatives & Condominiums, a nonprofit organization that advises co-op and condo boards, said one of the most noticeable spikes in fees came right after Sept. 11, and has stayed high since.

"We had tremendous escalating costs for insurance that really skyrocketed," she said. Added building security and health insurance for building service employees have also become major expenditures.

The New York Times, citing numbers from appraiser Jonathan Miller, recently reported that common charges and real estate taxes have together spiked 38 percent at condos between 2002 and 2007, compared to a 27 percent increase in the previous five-year period.

Condos cheaper?

In 2006, the Council of New York Cooperatives & Condominiums found that common condo fees were about 45 to 55 percent of what co-op owners were paying in maintenance. That is largely because condos separate common fees from real estate taxes and mortgage payments.

The report, which compared data from roughly 200 co-ops and 150 condos, also indicated that over the past three years, wages, including benefits, had gone up approximately 11 percent.

"A big piece of the co-op maintenance is the building-wide mortgage, but then again, an individual condo mortgage is usually bigger," said Ronald Kremnitzer, partner and co-chair of Pryor Cashman LLP, a firm that converts rental buildings to condos.

Kremnitzer said condo common charges combined with condo real estate taxes are typically lower than comparable co-ops, but the condos usually sell for more money.

"Now when you go get an individual condo mortgage as opposed to a co-op loan, you generally have a bigger mortgage and pay more interest," he said. "The prices for both condo and co-op really are a wash-out, the difference being the purchase price and the ongoing price."

Making repairs

Another factor that can drive up common charges, particularly in new condos, is shoddy construction.

When condo boards find that the building needs repairs or has major structural problems like a leaky roof or poorly installed flooring, a capital assessment is levied on the tenants, which results in a temporary fee hike.

Wolf said that scenario is common. "A board does an assessment to pay for deficiencies in new construction left by the developer," he said. "Maybe for the builder, things didn't go according to plan: It could be a mechanical failure or exterior issues. In most cases, the sponsors are going to repair that, or the building does an assessment to pay for it."

Wolf said that sometimes a sponsor, usually the developer selling the units, doesn't cover those costs because their obligation to the project has ended.

Rosabianca said developers know that modest common charges are one of the lures of buying a new condo. Still, he warned that keeping those fees too low can cause problems later on. And, while new condo developments often advertise themselves as having low common charges, those charges often end up

increasing later because of new costs.

"It's foreseeable that when a building comes into operation, they realize their budget didn't meet the building's needs, so they increase common charges," he said. "It happens all the time."

According to Rosabianca, boilerplate language in the condo offering plan often states that the budget is subject to any reasonable increases.

Planning for high costs

Condo boards vary in the way they plan for the future, with some socking away reserve money and others opting out of maintaining rainy day funds.

"There is a condo board that didn't need to raise the common charges but raised them 2 percent anyway this year," Heller, the real estate lawyer, said. "They said they were worried that unit owners were getting too comfortable without ever raising fees. If you do it prophylactically, build a reserve, you won't get shocked."

Elly Pateras, vice president and senior managing director for Douglas Elliman Property Management, said condo boards that accurately project expenses for the following year can keep up with the 3 to 4 percent cost of living increases.

"Many buildings don't raise the common charges or run a deficit for two or three years, and then they meet up with expenses," Pateras said. "All of a sudden, there's a 16 percent increase."

Kremnitzer, who also represents condo buyers, advises his clients to find out what the projected charges will be over the years.

"We look at condo minutes — find out if there have been things like leaks or complaints," he said. "But one of the most important things we look at is how much money is the condo holding in the bank, how financially successful the building is. We like seeing a building hold three to six months or more [worth of common charges] in reserve."

He said if a building's budget is \$1 million a year to cover labor, insurance, fuel and normal repairs and is generated solely from common charges, the building should have at least \$500,000 in the bank.

But it's a matter of striking the right financial balance, because some people get nervous if a building holds too much in the bank, he noted. "Now they have credit lines and much thinner tax reserves," he said.