

REAL ESTATE

Combine and Conquer: Your Place and Mine

By VIVIAN S. TOY SEPT. 9, 2011

IN New York City real estate, there is a little-known and somewhat mystifying equation, and that is: $1 + 1 = 2.5$.

It applies to breakthrough combinations, in which someone buys two adjoining apartments and breaks through the connecting wall, or in some cases the floor or ceiling, to create a bigger place. The equation makes no sense mathematically, but because larger spaces in the city are worth more per square foot than smaller ones, selling two smaller apartments as a potential combination can result in a higher sale price for each unit.

That is why, brokers say, more New Yorkers have recently joined forces with neighbors in selling contiguous apartments.

Sellers are driven by two things. First, marketing a one-bedroom as both a one-bedroom and part of a potential three-bedroom significantly increases the buyer pool. Second, the market for larger apartments has been strong in recent years, as more New Yorkers have chosen to raise their families in the city rather than head to the suburbs.

A recent search of listings at nytimes.com found more than two dozen advertised combinations. Many more fly under the radar when someone decides to buy the apartment next door and expand into it. The offerings range from a \$17.95 million 11-room listing that combines apartments at the Dakota, on the Upper West Side, to a potential two-bedroom in Yorkville that would cost \$440,000 and merge a studio with a one-bedroom.

In the last year, demand for apartments with three or more bedrooms has risen. But because supply hasn't followed suit as new developments have dwindled, many brokers are now encouraging clients to reach arrangements with their neighbors. Sponsors of new developments have also combined units at a buyer's request, or simply to meet the demand.

Now back to that equation. A one-bedroom sold with a neighboring one-bedroom doesn't exactly produce a 2.5-bedroom, but it almost certainly produces more than a standard two-bedroom. Depending on how the apartments are laid out, the combination can produce a two-bedroom with a double-sized living room, a two-bedroom with a den, or a three-bedroom, and maybe a laundry room or a walk-in closet where the second kitchen once was.

Jonathan J. Miller, the president of the appraisal firm Miller Samuel, says the 2.5 in the equation is more figurative than literal. "If you have two adjacent apartments and they logically connect to a bigger and better layout," he said, "it's not uncommon to see a 20 percent premium on a price-per-square-foot basis. And that's before the renovations are even done. It's just the fact that they're put together."

To be sure, not all proposed combinations make sense architecturally, but for two units that can easily be merged, Mr. Miller said, buyers are willing to "pay more for the potential to enhance the value."

He notes that the equation does not work in the suburbs, where there is usually a diminishing return on price per square foot as spaces become larger. But in Manhattan, according to Miller Samuel, studios are selling for an average \$838 per square foot, two-bedrooms for \$1,119 per square foot, and four-bedrooms for \$1,837 per square foot.

Combinations make the most sense when sellers create a configuration that does not already exist or is otherwise unavailable in a particular building. In new developments, sponsors have taken already large apartments and supersized them into sprawling homes with 3,000 or more square feet. In grand prewar buildings, buyers have combined apartments to recreate the kinds of gracious spaces that were original to the buildings. In postwar buildings, which seldom had apartments with more than two or three bedrooms, some buyers have created apartments never envisioned by the builders.

Kenneth S. Horn, the president of Alchemy Properties, said buyer requests had prompted his company to create several 3,700-square-foot apartments by combining two three-bedrooms at the Isis, at 303 East 77th Street. The building is about 60 percent sold, and Alchemy has developed two new floor plans with asking prices north of \$4.5 million.

“We designed the building to have easy combinations,” Mr. Horn said. “And that works for us now because we’ve had people come in and say they don’t just want three bedrooms, they want four or five bedrooms.”

Shlomi Reuveni, a broker at Brown Harris Stevens Select and the sales manager at the Laureate on the Upper West Side, said that the largest apartment in the building’s original offering plan had 4,200 square feet, but that several combinations had produced apartments with 5,000 to 7,500 square feet, and that one buyer had proposed combining three apartments to create a home of 10,000 square feet.

In new developments, what the buyer will pay for a combination depends on who does the work: buyer or developer. There may also be a premium, as the developer must file amendments with city and state officials to alter plans.

At 1 Grand Army Plaza, combinations have reduced the 114 apartments originally designed by Richard Meier to 96. The building is about 75 percent sold. The developer created some combinations by merging three adjacent one-bedrooms into four-bedrooms of 3,200 square feet each.

“It happened organically,” said Cheryl Nielsen-Saaf, a senior vice president of the Corcoran Group and the sales manager for the building. “We had a number of

people asking for larger apartments, so we started looking at what we could do.”

Ana Delgado Schultz and Elan Schultz were among the first buyers there in 2008. They felt the available two-bedrooms were too small at 1,600 to 1,800 square feet, so they asked if they could combine two one-bedrooms. The result is a 2,400-square-foot apartment with an oversized master bedroom that was originally a living room, a second bedroom for their 16-year-old daughter, an office and a laundry room.

“This kind of square footage didn’t exist in the building,” Ms. Schultz said. “It was either more or less, and not what we wanted.” The developers liked the Schultz design enough to create a similar combination right above theirs.

Combinations can be more complicated for co-ops and condos that are resales, since they invariably involve two owners. Typically, one owner is more eager to sell and therefore willing to negotiate, while the other will sell only for the right price. That is why it is important to have a clear agreement on how to market the combination and divvy up the proceeds from the sale.

Most combination sales have two listings: one for the two units combined and one for the unit owned by the more serious seller. There may be three listings if both owners are serious sellers, in which case the combined sale price is the sum of the two smaller amounts, and each seller strikes a separate deal with the buyer.

But Deanna Kory, a senior vice president of Corcoran who has several combination listings, said the “ideal way” to market a combination was at a single price. Listing one of the units individually “waters down” the power of the combination, she said, and makes it harder to get as much of a premium, because buyers can see the fair market value of one unit and then “look at the two pieces and argue that they don’t add up to the number you’re asking.”

Because “you don’t want people negotiating against each other,” she said, it is best if the selling neighbors get along and crucial that they be committed to presenting a unified front.

There are three ways to divide the proceeds if the sale price is higher than the sum of the two pieces, Ms. Kory said: by a percentage determined by an appraiser, by share allocation if the building is a co-op, or by square footage. But there can be problems with the square-footage method, because it does not take into account, for instance, that the unit with three sunny exposures has more value than its darker neighbor.

For the \$17.95 million listing at the Dakota, the smaller unit is a two-bedroom with Central Park views with a price of \$5.95 million, and the other is a restored three-bedroom with a formal dining room. John Burger, the Brown Harris Stevens senior vice president who represents both sellers, said the owners of the larger apartment had not planned on selling, “but it was a business decision where they saw that if they sold it jointly with the apartment that has park views, they would get significantly more than the fair market value of their apartment if they sold it on its own.”

It behooves the buyer to get approval for the combination from the building’s board or managing agent, Mr. Burger said. The board will generally not approve actual building plans until a deal has closed, but it can give the green light to the basic idea.

At the Dakota, he said, the board is inclined to allow a combination if it recreates a larger space that once existed. As in many prewar buildings, the apartments at the Dakota have been cut up over the years.

Angela Latigona, an agent at Brown Harris Stevens, has a \$2.55 million listing that would combine two two-bedrooms at 79 Bridge Street, a seven-year-old condominium in Dumbo, to create a five-bedroom apartment. One of the sellers, Douglas Atkin, also listed his apartment separately, for \$1.25 million, in May and has since reduced it to \$1.175 million. The other party in the listing, Mr. Atkin’s neighbors, Heather and Todd Tilev, are residential designers who drew up two possible floor plans for the combination.

Ms. Latigona suggested the combination because a 2,800-square-foot apartment with four balconies is unusual for Dumbo

“It’s also an easy combination,” she said. The apartments are basically mirror images of each other, with a wall separating the living rooms. She calculated the asking price at about \$900 per square foot by looking at two-bedroom prices that range from \$750 to \$1,000 per square foot and discounting for the fact that the building is not on one of the area’s main streets. The estimated cost for a simple combination that removes the connecting wall and one of the kitchens is \$40,000, while a more extensive renovation with a new kitchen and rearranged spaces would be closer to \$100,000.

Ms. Tilev said she and her husband had not planned on selling, but were swayed by Ms. Latigona’s reasoning. They have shared their bottom-line price with Mr. Atkin, she said, “so if there’s a negotiation on the deal, he knows he’ll have to decide if he wants to negotiate on his side.” Mr. Atkin said he had been “wary about venturing into this kind of arrangement with friends, but because we have very clear delineations, I’m comfortable with it.”

The chance to create unusual space is often what pushes owners to sell jointly.

Jane Greenberg and David Costelloe, two agents at Halstead Property, represent two owners at 39 West 12th Street in Greenwich Village, and are marketing the apartments both individually and jointly. The one-bedroom loft is listed at \$1.195 million, and the adjacent two-bedroom at \$2.995 million. What sets the combination apart is the possibility of adding 250 square feet to a 500-square-foot roof terrace.

“That amount of outdoor space in this neighborhood is exceptionally rare,” Ms. Greenberg said.

Mr. Costelloe said that a potential buyer had proposed a single offer for the combination, but that to simplify matters and because he and Ms. Greenberg are working with the owners separately, the buyer had been urged to make a separate offer to each seller.

Outdoor space is also driving the combination that Alan Berger, a senior vice president of Corcoran, represents at 222 East 80th Street. The architectural merger, which would create a 1,000-square-foot patio as well as three bedrooms, would unite

a small \$525,000 one-bedroom and a larger one-bedroom listed at \$695,000; the combination price is \$1.22 million.

“Let’s face it, there are a lot of one-bedroom apartments available on the Upper East Side right now,” Mr. Berger said. “But how many three-bedrooms are there with this kind of outdoor space?” He said the vast majority of calls he had received were from people interested in the combination.

In this case, the fact that the apartments are being sold as separate units allows the buyer to avoid the 1 percent mansion tax, which kicks in at \$1 million.

There are, of course, a number of potential pitfalls when buying a combination apartment.

Financing in the current risk-averse environment can be a bear, because some banks will not make loans on breakthrough combinations. “It’s a greater risk to make a loan on two separate properties that are yet to be combined,” said Melissa Cohn, the president of Manhattan Mortgage Company.

When banks bring in appraisers, they typically receive three appraisals: one each for the individual apartments and one for the proposed combination. More conservative banks will lend only the amount that is the sum of the two individual apartments, and more aggressive banks will use what is known as the “subject to combination” appraisal, typically a larger amount.

Banks also require borrowers to put some money in escrow until the basic work of the combination — breaking through the connecting wall and removing the second kitchen — has been done. The amount is usually 1.5 times the cost of that work, Ms. Cohn said. “So you have to use other funds to do the work,” she said. “Let the bank know when it’s done so it can be reinspected, and once it’s complete to their satisfaction, they’ll release the escrow.”

Then there is the renovation itself, which requires an entirely different kind of fortitude. Getting final approvals for renovation can be a question mark, since building boards generally will not make a formal review of plans until a deal has

closed. But for some intrepid buyers, the chance to create a unique space is worth the gamble.

A version of this article appears in print on September 11, 2011, on Page RE1 of the New York edition with the headline: Combine And Conquer: Your Place And Mine.

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