Investors flip over rental property sales

BY PETER GRANT
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REAL ESTATE

Investors have started to "flip" properties for the first time since the real estate market collapsed, sending another signal that the market is near bottom.

Flipping typically involves selling properties immediately after buying them for a quick profit. Often it's just the contract to buy a property that is sold.

In the overheated market of the 1980s, contracts of sale would sometimes be flipped as many as five times before title would be transferred. But this practice ceased when the market collapsed, ruining many of those who were left holding the properties.

Brokers say flipping is now making a comeback. "There have been half a dozen flips in the past half year," says Paul Massey, a principal of Massey Knakal Realty Services. "There are plenty of buyers in the market."

But the return of flipping does not herald the beginning of another boom cycle. Financing for all transactions is still very difficult to obtain and prices are far below their peak levels of the late 1980s. Investors are basing their expectations for returns on the cash flow of properties, not their appreciation potential.

For that reason, most investors are focusing on rental apartment buildings, which have enjoyed relatively stable rents in recent years. With office rents continuing to decline, commercial investments are still precarious.

"The trend is still downward," says Peter Hauspurg, president of Eastern Consolidated Properties Inc., a real estate investment bank. "We've seen no new demand coming into the market to take up the slack."

The Real Estate Board of New York Inc. reports that only 10 office buildings were sold in Manhattan in the first six months of 1992. That's one more than the first half of 1991, which brokers say was the slowest investment sales period in recent memory.

In the few cases of office buildings being flipped this year, buyers are still getting bargain prices. Michael Dezer purchased the contract to buy 150 W. 28th St. But he says it was not a traditional flip because the price he paid for the 19-story building, $3 million, was no more than the original contract amount.

The flips occurring in the residential market are more of a reminder of the quick-profit deals of years past. The townhouse at 46 E. 61st St. was sold for $2.7 million a few months after another investor contracted to buy it for $2.4 million.

Meanwhile, West Hudson Inc. paid more than $1 million for the six-story loft building at 153-155 Hudson St. just months after another investor paid $800,000 for the property. Charles Kingsley of Lee Odell Real Estate Inc. was the broker in the West Hudson deal.

An official with West Hudson says it can still make a handsome profit from converting the building into condominiums despite the higher price it paid.

"We bought it for less than $35 a square foot, which was the price of the building in the early 1980s," he says. "In 1986 and 1987, we would have had to pay $100 to $125 a square foot."

The official says he has begun buying property again for the first time in 10 years because of bargain prices.