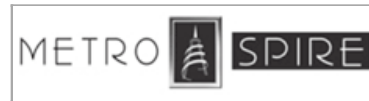




# THE REAL DEAL



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NEW YORK REAL ESTATE

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## RESIDENTIAL NEWS Combination

By Melissa Dehncke-McGill

In Manhattan, apartment dwellers often find themselves short of space and eager to expand. Setting out to conquer a neighboring apartment is one way to get space they can afford.

Though it still only represents around five to 10 percent of deals done by real estate agents, there has been a gradually increasing trend towards combining apartments over the last several years.

The trend has been fueled by low interest rates, lack of inventory, and, farther back, a 1997 rule change by the city that no longer requires a revised certificate of occupancy when spaces are connected.

With the city a safer place since the 1990s and crime still near historic lows, the trend has also been fueled by more families deciding to stay here than in the past, producing a greater need for bigger spaces.

When two apartments are combined "the whole is greater than the sum of the parts," said Jonathan Miller, president and co-founder of Miller Samuel, the real estate appraisal company. He said the general equation is "one plus one equals two and a half."

"The reason for this is our market is a high-density metropolitan area with a premium placed on contiguous space," Miller said. "For example, if a co-op shareholder with a two bedroom apartment decides to combine his apartment with a studio that becomes available, the studio would assume, at a minimum, the price per square foot of the two bedroom it is being combined with."

"That could bring the whole apartment up to another level," he said. "Less than a three bedroom but more than a two bedroom in a housing market that has limited supply."

Although brokers agree combining apartments is a continuing trend happening in all parts of the city and in all price ranges, they frequently do not benefit from most of these sales, since the deals are often done without a broker's help.

Robby Browne, a senior vice president at Corcoran, said that people are much more space sensitive than they were five or 10 years ago.

"People are trying to find space and if they can accomplish it by buying the apartment next door, it's better than trying to move, although it makes less product for us to sell," he said. "It's not a significant part of my business, but I am very much aware of it."

Jacky Teplitzky, an executive vice president at Douglas Elliman, agreed.

"Sometimes people will see a broker to appraise the value of the apartment and get advice, but most likely no broker is involved, unless a broker is representing the apartment next door", she said. "Then it can be a quick sale and very beneficial to the broker."

Jeff Wolk, co-principal and co-founder of Fenwick-Keats, said it has been a steady trend ever since the special certificate of occupancy rule changed six years ago,

"Buyers don't have to deal with as many administrative hurdles of city ordinances, and sometimes your neighbor can be one of the easiest people to sell your apartment to," he said.

Wolk said that it's hard to estimate how many transactions occur every year since so many sales happen between neighbors. "That information would be hard to find because apartments aren't recorded that way," he said. It is also very difficult to get statistics on the number of construction permits that involve combining apartments because the New York City Buildings Department said it does not keep them.

Still brokers estimate that clients looking to combine apartments probably only comprise between 10 and 20 percent of their business. Miller believes that the figure is actually less than five percent overall. "Of the sales that happened last year, probably less than five percent were some sort of combination, although as a percentage it has grown quite a bit in the last 10 years," he said.

Some brokers instigate the sales by helping to negotiate with neighbors who are at first reluctant to move, or by contacting a former client to let them know an adjacent apartment is available, and, if added to theirs, would greatly enhance the value of their apartment. "Quite frequently, that's common," said Wolk. "Brokers are very creative and will vigorously market a building".

"It's a very good business practice", said Teplitzky, who herself owns a combined apartment in a building that started with 90 units and now has 74.

Often if an apartment owner is interested in the apartment next door, the owner may not be ready to sell or may ask for a price significantly above the market rate. When Teplitzky wanted to buy her neighbor's apartment, they weren't ready to sell and it was not an issue of price. "The value of the apartment to the person next door is higher, and you as the buyer will have to pay a higher premium, because the person next door understands their apartment's worth," she said.

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Wolk said that if the buyer doesn't want to pay the market price, or the price is significantly higher than market value, greed can often set in and the buyer might feel he's over a barrel and being gouged. "The neighbor hiking up the price can get very emotional and personal and create a lot of in-building tension," he said.

Browne also knows personally what it's like first hand to have a coveted apartment. "I've been approached by neighbors to sell my apartment but there is no way that I will, because I could not duplicate what I have," he said. "I'm not interested in the money and nobody is going to offer me \$20 million to move."

In another example, a former owner of a combined apartment on the Upper West Side, who didn't want his name used, said he waited between six and eight years to acquire the one bedroom apartment next door and paid 15 to 20 percent above market to get it. "I was not able to negotiate one dollar," he said. "The seller knew I wanted that apartment and that whatever he asked I was going to pay. He wouldn't have been able to sell it for what I paid."

But paying way above market price is not always the case. Will Cohane, who lives in a one-bedroom duplex in the Century at 25 Central Park West, bought a two bedroom apartment in December that he intends to combine with the upper floor of his current apartment.

Cohane, who works in hotel management, said he was looking to move downtown when the space became available and he couldn't pass it up. The sponsors were very excited to sell it quickly and he did not pay much more than 5 percent over the market price, he said. "Frankly, I wouldn't have paid more for it," he said. "The previous tenant passed away and this was one of the last sponsor-controlled units." The upper floor will be the main floor with the guest bedroom/office/basement on the first floor.

For people who live in a co-op and want to combine apartments, it is necessary to first go to the building's board and get approval. It can be easier to get approval on a combination plan if one already exists in the building.

"If there is one already, more pressure will be applied to get it approved," said Teplitzky. "Otherwise, it will be tedious process where they will want architects, lawyers and others to get involved. It can be very traumatic and very costly," she said.

"Boards are continuing to get tighter on their rules when it comes to reviewing plans," said Wolk. "There must be a formal approval of the new purchaser even if it's someone already in the building." But if you are a shareholder in good standing, a co-op board is generally in favor of combination and should approve the plans, he said.

It has become quite common when people combine two apartments that the buyer will acquire the common area to make the layout work. If that space is at the end of a hallway, the co-op will often sell it to the buyer. "The co-op benefits because they get income in shares in perpetuity and they are not losing access to that hall space, and the co-op holder has an enhanced layout," said Miller.

The cost for combining apartments can vary widely depending on how extensive the renovation will be. "The rule of thumb is generally \$200 to \$250 a square foot," said Wolk. "In adding 500 square feet of space, a buyer might have to pay \$125,000 to do the renovation. Generally, renovation cost goes into kitchens and baths, depending on how full-scale a renovation is."

Browne said it also depends on the contractor you choose and how quickly a board moves on your proposal. A vertical combination is more expensive because it involves a stairway, floor joists, and drilling through a ceiling, which is often heavy concrete. Combining adjacent apartments is much more common.

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