

# EDWARD LEE CAVE

## DIVISION

### ***ARE TOWNHOUSES A BETTER VALUE THAN APARTMENTS?***

*March 2013*

The intent here is to begin to explore whether townhouses are a good value relative to the market's much more numerous cooperatives and condominiums. They are often larger than equivalent apartments, but they are typically less expensive relative to size. It is interesting to question whether this makes sense. Are townhouses undervalued?

According to my research, there were 24 Upper East Side single-family townhouses sold last year, at an average of \$1,990/SF, between 5<sup>th</sup> and Lexington Avenues.<sup>1</sup> According to Miller Samuel, Inc., the average square foot sale price for cooperative apartments, with four or more bedrooms, was \$2,960 in 2012, in the Fifth-to-Park Avenue corridor.<sup>2</sup> Much gets lost in statistical data. Given the relatively small number of Manhattan house sales, townhouse statistics can be variable and unreliable, and statistics tend to abstract concrete choices.

Most obviously, townhouses offer fee simple ownership, without the loss of personal and financial privacy associated with cooperative and even condominium ownership. They offer individuality, interesting, even elegant architecture, and a link with the past that is unusual in apartments. However, owning a townhouse in Manhattan involves trade-offs in the loss of manned security and maintenance services. Most New Yorkers choose apartments.

In order to more clearly illustrate the choices available to townhouse buyers, this article focuses on a single Upper East Side townhouse at 973 Fifth Avenue, which sold last year for \$42,000,000. In this analysis, the house is described in the context of other townhouses and compared to alternative apartments at the top of the market. This is to clarify the differences in architecture and space and to explain and interpret differences in pricing.

Floor plans and photographs of this and other houses and apartments discussed can easily be viewed at [streeteasy.com](http://streeteasy.com) or at each broker's web site. The photographs in this article are instead included in order to illustrate the inspiration for the architecture of these buildings.

#### ***973 Fifth Avenue***

The significance of this house is in its price, its size, and its architecture. At \$42,000,000, it was the highest priced townhouse sold on the Upper East Side in 2012. With over 15,000 square feet on seven floors, it was also the largest.

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<sup>1</sup> *A Report on Upper East Side Townhouses Sold in 2012*, January 2012, [sicularassociates.com](http://sicularassociates.com)

<sup>2</sup> Miller Samuel data tables are at [MillerSamuel.com](http://MillerSamuel.com)

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973 Fifth Avenue's Italian Renaissance style was a specialty of its architects, McKim, Mead & White, who pioneered its revival in New York with the Villard Houses (Madison Avenue, 50-51<sup>st</sup> Streets, 1881- about 1886) and continued it with the design of Joseph Pulitzer's house at 9 East 73<sup>rd</sup> Street (1901-03). The style was admired for its restrained elegance, although in its application, the architects were not academic, and their interior inspirations were eclectic.<sup>3</sup>



*Palazzo Grimani, Venice*  
Source: Wikimedia, Author: de:Benutzer.Jcr

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<sup>3</sup> *New York 1900*; Stern, Gilmartin and Massengale, Rizzoli Press, 1983, pp.315-316, 321-325  
This 25' house is grand among today's private townhouses and apartments, but it was relatively modest by the standards of Fifth Avenue when it was built in 1910. Larger houses occupied full block fronts, as do the both the Frick and Carnegie houses. More frequently they were built on more than one lot on the Avenue's corners, such as the classical James B. Duke house, now the Institute of Fine Arts, just south of 973 at the north corner of East 78<sup>th</sup> Street, or a gothic revival house, now the Ukrainian Institute, which occupies the southeast corner of 79<sup>th</sup> Street, directly north of 973.

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At 973 Fifth Avenue, the grandeur of the Renaissance was applied to the relatively new “American front” plan, with a doorway just a few steps above street level opening to a large reception room across the full width of the house. A grand curved stairway, decorative iron balustrade, and 19’ landings, occupy the center of the building, allowing full width and exposures for public rooms and bedrooms on most floors. “The reception room [in the American front house], sweeping stairway, and large parlors, lent themselves to the extravagant life style of rich New York families at the turn of the century.”<sup>4</sup>

Like the tile roof, 973 Fifth Avenue’s stone façade is specifically inspired by the Italian palazzo. There is a rusticated base, and two classical orders, including Ionic columns and a strong entablature on the second floor, with Composite pilasters and entablatures, of decreasing importance, on the third and fourth floors. Its interiors include elements of Roman architecture, in the vaulted stair landing, medieval design in the reception hall fireplace, and 18<sup>th</sup> century French classicism, in the grand living room and dining rooms. The scale is grand, with 16’ ceilings on the parlor floor, and 13’ ceilings on the ground and third floors. Only the top floor servants’ rooms were limited to 9’. According to Paula del Nunzio at Brown Harris Stevens, the house needed a total renovation.

With 15,225 square feet, this \$42,000,000 sale was at \$2,759 per square foot. One other house sold last year for over \$30,000,000 on the Upper East Side, and six sold for over \$20 million. The narrowest was 19’9”, the widest 28’. Two are located on Fifth Avenue, and the remaining four are in the East 70’s, between 5<sup>th</sup> and Lexington Avenues.

The two highest Upper East Side townhouse prices last year were on Fifth Avenue. In addition to 973 Fifth Avenue, 815 Fifth Avenue, with 10,100 square feet, sold for \$32,000,000 in August. Most probably, 973 did not sell at the highest price per square foot, because it needed work. The highest price per square foot, \$3,363, was for a renovated house at 116 East 70<sup>th</sup> Street.

### ***Alternatives***

Buyers with a similar budget were able to consider fewer than a dozen cooperatives and condominiums on the Upper East Side and Central Park West that sold last year for over \$30,000,000. (The following data is also summarized in tabular form on page 8.)

The condominiums were at:

15 Central Park West, where apartment 7D, with about 4,584 square feet, sold for \$32,500,000 or \$7,090/SF

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<sup>4</sup> *Bricks and Brownstone, The New York Rowhouse 1783-1929*; Charles Lockwood, Abbeville Press, 1972, pp.237-238

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15 West 63<sup>rd</sup> Street, where a 29<sup>th</sup> floor apartment with 7,758 square feet sold for \$33,500,000, or \$4,318/SF.

Both have Central Park views. 15 Central Park West is a relatively new building where the larger apartments are pre-war in their sizing and layout, and 7D was in “mint” condition. Of the two buildings it has the better architecture and the greater prestige

With one exception, the cooperatives were on park-view or high floors in pre-war buildings on Fifth or Park Avenues. Following are some of the most prestigious:

Apartment 12B at 834 Fifth Avenue, with about 5,500 square feet sold for \$42,000,000 (\$7,636/SF) last January. It too was in “mint” condition.

Another, a full, eleventh, floor apartment at 944 Fifth Avenue sold in December for \$50,000,000. The apartment had about 4,700 square feet, so that the sale was at an incredible \$10,638/SF. It had also been completely redone and came with a guest apartment on the ground floor.

At 2 East 70<sup>th</sup>, PH13A sold in June for \$40,064,000. This apartment is reported to have about 4,000 square feet and was sold by an estate. The building typically captures high prices, relative to size, due to relatively small, full floor apartments, and extraordinary views over the Park and the Frick Museum.

Although similar in purchase price, all of these prices were higher than that of 973 Fifth Avenue on a square foot basis. Most were also renovated. According to Jim Friedman at Ryan Associates, a complete townhouse renovation would cost at least \$1,000 per square foot and could reach \$1,200 to \$1,500/SF or more depending on the specifications. For a buyer comparing 973 Fifth Avenue to a renovated apartment the appropriate baseline may be \$2,759 + \$1,000 to \$1,500 or \$3,800 to \$4,300 per square foot. The difference is still very large for buildings that are considered to be at the highest architectural level, that is 15 Central Park West, 2 East 70<sup>th</sup> Street, and 834 and 944 Fifth Avenue. And given the architectural importance of 973 Fifth Avenue, the comparison is appropriate.

However, as for most townhouses, 973 Fifth’s 15,225 square foot measurement is gross, that is from the outside of the exterior walls. A direct comparison to condominium sizes is acceptable, since these too are typically measured on a gross basis. However, to compare it with pre-war cooperatives, it should be translated into a net estimate. The floor plan shows 21.5’ foot rooms on a 25’ lot, suggesting an adjustment of 3.5’ or 14%, although the front and rear walls may not have been as thick. It is hard to come up with an accurate adjustment for the arguably greater circulation and stairway space in a mult-floor house, as compared with hallways in pre-war apartments, which too can vary in their efficiency. However, if a 14% discount to net is applied,

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the resulting net area would be 13,093 square feet, and the price per square foot would be \$3,207 (as compared to \$2,759/SF gross). So a better basis for comparing 973 to cooperatives, after renovation costs, would be approximately \$4,200 to \$4,700/SF.

### ***998 Fifth Avenue***

A specific comparison with 998 Fifth Avenue is important because of its architectural similarity to 973 Fifth Avenue and because many of its best apartments face the Metropolitan Museum. Like 973 Fifth Avenue, 998 Fifth Avenue does not have open, above the tree line, park views.

Built at the northeast corner of East 81<sup>st</sup> Street, 998 was not the first apartment house on upper Fifth Avenue, but it was the grandest when built. Like 973 Fifth Avenue, it was built in 1910. The architects were the same, McKim, Mead & White, and the facade was again influenced by the Italian Renaissance palazzo. The exterior is limestone with a granite base, and there is a heavy bracketed cornice. Two long balustrades run the length and width of the building, dividing it into three sections and lowering the impact of its height. An image of the Palazzo Strozzi in Florence shows the same three sections and a similar cornice, although at 998 there is classical fenestration, more refined stonework and greater height. An iron and glass entry canopy is on East 81<sup>st</sup> Street.



*The long gallery at Haddon Hall, circa 1890  
photographer unknown; source: Wikipedia*

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This twelve-story building was developed on a very grand scale, with large apartments for the very rich. The lobby was lined with Italian marble; the halls were floored in Tennessee marble, and the elevators had walnut paneling. The interior included both simplexes facing Fifth Avenue, and duplexes at the rear. In the simplexes, the 36' x 14' reception room were copied after the long gallery at Hadden Hall, England and were paneled in English oak.<sup>5</sup> 973 Fifth was constructed at a time when fewer houses were being built. 998's success eased the transition to apartment living that eventually became the norm for the very rich. Originally a rental, it converted to cooperative ownership in 1953.

Apartment 5W was listed with Sotheby's and sold in March of last year for \$27,222,500 (\$4,776/SF). The apartment faces 5<sup>th</sup> Avenue, and the façade of the Metropolitan Museum. According to the plan, it has twelve rooms and measures about 5,700 square feet, much smaller than 973 Fifth Avenue, and its sale price was much lower. The layout of the kitchen and service rooms has been modified somewhat, and one maid's room appears to be missing from the original plan. The length of the living room and reception rooms are longer than at 973, although the ceiling heights, apparently 12', are somewhat lower. However, the arrangement of the living room and dining room along the length of the Avenue and their opening to each other and to the reception room enhances its grandeur and gives it more Fifth Avenue exposure than the townhouse. The apartment was in highly renovated condition, but it lacks 973's dedicated library and has only four bedrooms.

If 973 Fifth Avenue's sale price is adjusted to a net useable figure, about \$3,200/SF, and \$1,000 to \$1,500/SF in renovation costs are added, its square foot cost is very similar to that of this apartment, \$4,776. Since the renovation costs do not include the cost of carrying the house empty, for a year or more, while the renovations take place, the square foot cost of the house likely exceeded that of this apartment. In this example, a more precise architectural comparison, rather than one based on budget, is not yielding a dramatic difference in pricing. The major difference between these two properties is the much larger size of the house.

### ***Is the townhouse really the better value?***

These choices illustrate something of a conundrum. 973 Fifth Avenue is a trophy townhouse, the most expensive sold on the market last year. At \$42,000,000, for 15,225 square feet or \$2,759 per square foot, even adjusted to \$4,200 to \$4,700 per square foot for size and renovation, it looks like a very good deal relative to trophy condo and cooperative prices at \$7,000+ or \$10,000 or more per square foot. These apartments are not on the same scale. They are not as nearly as large or as grand—but they are also pre-war, which is to say that they were built with reference

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<sup>5</sup> *New York, New York. How the Apartment House Transformed the Life of the City (1869-1930)*; Elizabeth Hawkes; Alfred A. Knopf, 1993, p. 192

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to classical norms—and they have not only doorman and maintenance services but also excellent views. However, when compared to the more architecturally and view similar apartments at 998 Fifth Avenue (\$4,776/SF), the difference is negligible, although again the apartment is much smaller.

### *Prices in 2008*

Further insight is offered by a brief comparison with relative prices in 2008, a year that was at or near the peak of the last market cycle. My research here is less in depth, but in that year the top townhouse sale appears to have been that of 14 East 67<sup>th</sup> Street, the 22,000 square foot Milbank Mansion, for \$49,000,000 (\$2,227/SF). This house is not on Fifth Avenue, but according to the exclusive agent, Paula del Nunzio of Brown Harris Stevens, it had “grand space and extraordinary width at 48’, but required total renovation. It also had a large, lovely swimming pool.”

The trophy apartments in that year included a 10,674 square foot penthouse at 15 Central Park West that sold in February for \$45,000,000 (\$4,215/SF). Note that another, smaller, 6,744 square foot penthouse sold this year for \$88,000,000 (\$13,048/SF).

At 1060 Fifth Avenue, a 7,500 square foot, pre-war penthouse in a cooperative building sold in July for \$48,836,000 (\$6,511/SF). It was actually two units, needing to be combined and renovated, with wrap-around terraces.

At 944 Fifth Avenue, the 10<sup>th</sup> floor sold for \$26,474,500 (\$5,632/SF). This apartment does not appear to have been listed with brokers, and I have no information on its condition. Note again that the 11<sup>th</sup> floor sold for \$50,000,000 in December 2012.

At 2 East 67<sup>th</sup> Street, the 11<sup>th</sup> floor sold for \$48,000,000 (\$8,888/SF) in July 2008. This is a full-floor apartment of about 5,400 square feet. The listing indicates that it was in “triple-mint” condition.

At 998 Fifth Avenue, apartment 4W sold in January 2007, not quite at the peak of the market, for \$27,500,000 (\$4,700+/SF). This apartment was also in highly renovated condition, and almost identical in plan, with a single additional maid’s room and bath. Its sale price is virtually identical to that of 5W in 2012.

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### *A Tabular Summary of Price*

*(All square footages are approximate, some per the listing brokers)*

<i>Address</i>	<i>Apt</i>	<i>Date of Sale</i>	<i>Sale Price</i>	<i>Gross SF</i>	<i>Gross \$/SF</i>	<i>Renovation Adjustment</i>	<i>Gross Adj. \$/SF</i>	<i>Net SF</i>	<i>Net \$/SF</i>	<i>Net Adj. \$/SF</i>
<b>2012</b>										
973 Fifth		7/12	\$42,000,000	15,225	\$2,759	\$1,000-\$1,500	\$3,759-\$4,259	13,100	\$3,200	\$4,200-\$4,700
15 CPW	7D	12/12	\$32,500,000					4,584	\$7,090	
834 5 <sup>th</sup>	12B	1/12	\$42,000,000					5,500	\$7,636	
944 5 <sup>th</sup>	11 <sup>th</sup>	12/12	\$50,000,000					4,700	\$10,638	
2 E70th	PH	6/12	\$40,064,000					4,000	\$10,016	
998 5 <sup>th</sup>	5W	3/12	\$27,222,500					5,700	\$4,776	
<b>2008-07</b>										
14 E67th		2/08	\$49,000,000	22,000	\$2,227	\$1,000-\$1,500	\$3,227-\$3,727	18,900	\$2,600	\$3,600-\$4,100
15 CPW	PH39	2/08	\$45,821,500					10,674	\$4,293	
1060 5 <sup>th</sup>	13B/ 14PHB	7/08	\$48,836,000					7,500	\$6,511	
944 5 <sup>th</sup>	10 <sup>th</sup>	2/08	\$26,474,500					4,700	\$5,632	
2 E67th	11 <sup>th</sup>	2/08	\$48,000,000					5,400	\$8,888	
998 5 <sup>th</sup>	4W	1/07	\$27,500,000					5,800	\$4,741	

### *Where is the value?*

In 2008, the spread in square foot prices, between the most expensive house and the trophy apartments was between \$2,227/SF for the townhouse at 14 East 67<sup>th</sup> Street, and for the apartments:

- \$4,293 (new condo),
- \$6,511 (unrenovated pre-war penthouse)
- \$5,632/SF (pre-war, unknown condition)
- \$8,888 (pre-war, renovated).

This is compared to 2012, when the spread was between \$2,759 at for the townhouse at 973 Fifth Avenue and for the apartments:

- \$7,090 (new condo),
- \$7,636 (pre-war, renovated)
- \$10,638 (pre-war renovated)
- \$10,016 (pre-war penthouse, estate sale).



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Accounting for differences in condition, and the narrowness of this sample, the current spreads are somewhat larger, indicating that the trophy apartments are gaining ground, relative to the best houses. This conclusion is not absolute, but it is reinforced by above-cited references to huge price increases at 944 Fifth Avenue and 15 Central Park West.

The house prices themselves, \$2,227/SF for 14 East 67<sup>th</sup> Street in 2008 and \$2,759/SF for 973 Fifth Avenue in 2012, are not terribly different given the differences in location.

And the two sales at 998 Fifth Avenue in 2007 and 2012 were at virtually the same price, \$27,500,000 (\$4,741/SF) and \$27,222,500 (\$4,776/SF). These two apartments are almost identical in size, position in the building and condition. Clearly the market has not pushed these prices up much, if at all, in this cycle.

What is suggested here is not a distinction between houses and apartments, rather between the trophy apartments and everything else. The apartments that combine the most significant elements of prestige, that is size at +-5,000 square feet, pre-war construction or layout, remodeled condition and/or penthouses with open Central Park views, appear to be moving up in relative value. Indeed the highest prices are now in the condo market, with the recent \$88,000,000 sale at 15 Central Park West and contract prices, for 11,000+ penthouses in a new ninety-story building on 57<sup>th</sup> Street, reported at \$90 million.<sup>6</sup> Large prestige spaces lacking these elements, even with grander architecture, are not only less expensive, but relatively so.

Does this mean that houses such as 973 Fifth Avenue or 14 East 67<sup>th</sup> Street and apartments like 998 Fifth are losing relative value over the long term, or does it mean that they are good value? For the houses, the overall purchase prices were huge, at \$42,000,000 and \$49,000,000, but this was due to their very large size. Both the houses and 998 Fifth Avenue lack open Central Park views, seemingly an essential element of the very highest square foot prices.

When markets are conservative, as they were beginning in 2009, demand focuses on what are considered to be the very best things. As markets begin to heat up again, as they have been over the past year, the very highest prices may be perceived as too much higher, and eventually more boats may tend to rise. If the spreads were narrower in 2008, then they may narrow again.

This assumes that tastes are static, although in fact they may irrevocably have changed. The penthouse condominium or high-floor cooperatives may continue to gain ground relative at the very top of this market. But given the emphasis that this market has also placed on very large spaces, who can know that a finely designed 15,000 or 20,000 square foot house might not

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<sup>6</sup> *The Top Ten Real Estate Stories*, The Real Deal, December 31, 2012

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eventually be recognized as the next, very best thing? In this very thin market, a single, highly priced and publicized, and perhaps celebrity purchase, and market perception will shift.

***Current Listings***

There are only a handful of houses listed at \$30,000,000 or more on the Upper East Side at this time, and none of these has the scale or location of the two houses discussed in this analysis. The opportunity to obtain a large house at the relatively reasonable square foot prices discussed is therefore an opportunity deferred. But for those who are interested, an education and expectation regarding architecture, space and pricing need not be put on hold.

If I can help or advise you on the purchase or sales of these assets, please let me know.

*Larry Sicular*  
*March 18, 2013*

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