

## NEWS

# Playing safe paying off for Alchemy

By JASON TURCOTTE

Some developers have abandoned their shovels, some have resorted to turning condo projects into rentals and others have been talked down up to 40% off their asking prices. But Kenneth Horn, president of Alchemy Properties, has not taken any of those routes.

Speaking at last week's National Realty Club luncheon, he credited the young development company's success to playing it safe. "We always anticipate that something's going to go wrong," Horn said.

Abstaining from greed, avoiding risk and recognizing the eventual fall of values has kept Alchemy realistic and honest — even at the height of the market, said Horn.

In April 2005 Alchemy bought 121 West 19<sup>th</sup> Street — the site of a chemical explosion — cleaned the property, and converted the warehouse building to

residential condos.

"We sensed there was a groundswell in the market; we sensed Chelsea was about to explode," Horn said.

They were right. And Alchemy sold 67 units there in a single day. But no healthy market is that hot, and Horn was skeptical about what

lay ahead for Manhattan's residential sector. He was also concerned about the inexperience of those jumping on the real estate bandwagon.

"Money was flowing left and right. People who used to be in the garment industry, doctors, lawyers, dentists — everybody thought they could be a real estate developer," Horn said.

A realistic, disciplined approach to development equated to a hiatus in new Alchemy acquisitions from 2005-07. And while other residential firms were withholding their prized units and penthouses to fetch higher prices (putting lesser valued units on the market first),

Alchemy wasn't playing any games; they weren't raising prices by amendment.

When others were developing as if prices would never come down, Horn's nature was to proceed expecting the worst.

And that has resulted in a much different story for Alchemy developments. For example: the firm sold half of the nearly 100 units developed at 50 West 15<sup>th</sup> Street and 125 West 21<sup>st</sup> Street by floorplans alone in 2007. While closings didn't begin until September 2008, the firm had just one of those approximately 50 or so buyers walk away from their contracts. And, what is more, pricing of units sold in 2009 have skimmed just 10-14% off Alchemy's asking price in a time where 25-30% discounts have been the norm.

"I think buyers realized we did not gouge the market," Horn noted.

Pointing to another success, Horn spoke about 452 West 58<sup>th</sup> Street, which the firm decided to hold off marketing until the building was up. Launching sales in May of this year, the building is



KENNETH HORN

now 40% sold, with sales prices off just 10-12% from asking prices.

Further exemplifying Horn's realist development mantra, Alchemy recently re-launched sales at The Isis, 303 East 77<sup>th</sup> Street, after construction reached 75% completion. The firm also dropped prices at the 32-unit development by up to 10%.

Horn has also recognized how crucial the first wave of sales is in these challenging times. With lenders mandating strict sales thresholds and buyers no longer willing to play the role of pioneer in a new development, Alchemy has highly incentivized sales for the first dozen or so units by paying for transfer taxes and closing costs. Once these first contracts are in place, other prospective buyers are more willing to come off the fence.

Beyond the "safety in numbers" philosophy that he feels is "chilling" the market, Horn said activity is further stymied by a peculiar buying trend: homeowners prefer buying when the market is hot rather than times when pricing has cooled.

But Horn feels optimistic about the opportunities — chiefly land opportunities and partially-built developments — to come. Alchemy has already eyed more than a dozen potential sites.

With just 6,300 new residential units coming online in the city this year, he said there will be a real dearth of product in the market two to three years from now, leaving plenty of possibilities for developers still in the business.