MANSION GLOBAL

New Developments Throw in Free Parking Spaces, Years of Maintenance Fees as Sales Concessions

With high-end buyers focused on second-home markets, developers in major U.S. cities get creative to close details

For the past several months, wealthy buyers in search of safety and personal space have flocked to vacation and single-family home markets across the country, leaving some new condo developments out in the cold.

And for buyers still interested in vertical living, there’s never been a better time to negotiate. But rather than offering overt discounts, many developers are bridging the gap with unusually dramatic concessions, covering items such as closing costs and decorating expenses to free parking spaces worth tens of thousands of dollars.

“We’re certainly seeing developers be creative, paying a couple years of common charges and taxes, either deeply discounting or throwing in storage and parking,” said Stephen Kliegerman, president of Brown Harris Stevens Development Marketing.

“If the sellers don’t concede, there’s just no deal, for the most part,” added New York-based Compass agent Rachel Glazer. “What I see the most of is young professionals taking advantage of reduced interest rates and also of the market being a little bit softer, as an alternative to renting.”

While many individual sellers are choosing to simply pull their listings from the market until conditions are more favorable, new developments often don’t have that luxury, with loans that they’re required to pay back on a specific schedule, and pressure not to drop prices and lower sales revenue for the rest of the building.

“In quality luxury buildings that have their financials in order and don’t have construction loans, they can weather [the downturn],” said Vickey Barron, a Compass agent in New York City. “Others, you may get [a net discount] of 20% off because they don’t have the time. They have financial commitments that are due, and they have to get momentum.”

While this phenomenon appears to be more pronounced in New York City, which faced an excess of new development inventory and sluggish sales even prior to the pandemic, high rises in other cities aren’t exempt.

“The condo market has really slowed up. People don’t want to live in multifamily dwellings,” said Jill Epstein, an agent with Nourmand & Associates in Beverly Hills, California. “We just closed on a higher-end condo last week and the concession that was offered was some customization [to the apartment] and a bit more flexibility in price. In general I haven’t seen prices go down yet, but when the market adjusts, condos are the first to get hurt and the last to recover.”

Standard Concessions Get Super Sized

Concessions are a standard part of dealmaking in new developments, and not necessarily a sign of market instability. But by any measure, the deals currently on offer go beyond what’s typically on the table.

For the developer to cover transfer taxes—which range between 0.4% and 0.65% for New York State, and 1% to 1.425% for New York City— is now a given in New York City, several brokers said, with many also now willing to cover the cost of the state’s so-called mansion tax, which can run as high as 3.9% of the sales price, as well as mortgage taxes for buyers using financing.

“There’s no buyer right now in a new development who’s going to pay transfer taxes,” said Kobi Lahav, director of sales for Living NY.

Common charges are also more negotiable than usual, particularly in areas where building amenities like gyms and other shared spaces aren't currently accessible to residents. While getting a year or two of common charges covered by the developer is more typical, in the current climate, that number can go higher.

"They want to keep the optics of the higher price," said Seth Levin, a broker with Keller Williams New York City. "I've heard of one development they were talking about paying 10 years of common charges. That was for a very high price point, in the tens of millions of dollars."

Developers can also knock down the net price with closing credits, which aren't reflected in the recorded sale price but can significantly lower the buyer's outlay.

"We see [closing credits] in almost every closing," Mr. Lahav said. "On a $1 million, you can get a $25,000 closing credit. Or let's say your closing costs come out to 5% of the purchase price, the way it works is the developer will pay for it. It's not money in your hand but you use it to pay your attorney, pay the mansion tax, pay for upgrades in your apartment. It works exactly like giving you a discount on the apartment, it just doesn't show up on the books."

More specific credits are also on offer to buyers interested in having decorating or moving costs covered, Ms. Barron said, or in one case, having the developer agree to pay for two years worth of the buyer's Uber rides.

Buyers "go in with the offer with this list of things that normally would look crazy, but now [developers] say 'Ok, we'll do this or that,'" Ms. Barron said. "It's becoming more common, and no longer the exception to the rule."

Parking garages, storage spaces, and other areas already owned by the building are more negotiable than usual, as well, and can add significant value to a deal without affecting the final sale price.

"This has always been an extra way for developers to make money off the building, selling storage, cabanas on the roof, parking spots," Mr. Lahav said. "Right now, all of these things are up for grabs. In a lot of cases parking spots that are worth $50,000 or $60,000, they'll now just throw it in. These things are deeded separately, and when the market recovers in the future, nothing prevents you from selling them to your neighbor."

Creative Approaches to Financing

Low mortgage rates, which average around 2.87% as of Friday mean that the majority of buyers in the market at the moment are interested in financing, and their loans can become another area of negotiability.

“Sometimes the developer will offer to help buy down their interest rate, paying a point or two toward their mortgage to further reduce the rate,” Mr. Kliegerman said. “We’ve also seen developers who in the past weren’t open to mortgage contingencies and now they are.” (Mortgage contingencies allow buyers to pull out of deals without penalty in the event that they’re unable to secure financing.)

Villa Valencia, a development in Coral Gables, Florida, is offering to finance the buyer’s 50% deposit at a rate of 0%.

“We’ll finance the deposit at zero cost, with security against the buyer’s first mortgage [on a primary residence],” said Rishi Kapoor, CEO of Location Ventures, the project’s developer. “It takes out that calculus of thinking, ‘I don’t want to move money.’ We’re giving them 90 days post closing date to be able to pay off the mortgage, giving them time to list their house and work through the uncertainty in the market.”

Rent-to-own options are also popping up for buyers not willing or able to lay out a large down payment but interested in locking down a sale at a competitive price.

“There are different ways it can be structured, some buildings will count the entire year’s rent towards the purchase price,” Ms. Glazer said. “Others will do a portion of it. I have one deal we’re working on where the buyer just can’t close for a year because he needs to free up funds.”

The net discount this all adds up to varies across price points, and broadly, units priced above $4 million are seeing more room for negotiation than their lower-priced counterparts. Buildings at either the beginning or the end of their sales process are also the most likely to offer steep discounts, Ms. Barron said.

“In new developments, we were already seeing around a 7% typical discount [prior to the pandemic], and now it’s probably more like 15% with everything thrown in,” Mr. Levin said. “If you can get a 15% to 17% discount on a $5 million to $7 million property, you’ve done pretty well.”

He added, “There’s nuance, but it’s straightforward—developers are hurting right now. But they want to protect their prices, and are willing to get creative.”

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