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Modern-Day Alchemy Succeeds in Manhattan Condo Conversion

Twelve-year-old Manhattan-based Alchemy Properties' investment strategy has been a formula for average internal rates of return of at least 45%. Its plan has been quite simple: buy underutilized properties in the 30,000-70,000 square foot range, add about 30% in cash--use debt sparingly (65%-70%)--and hold for two years. The approach has meant it has nearly doubled its equity stake in all of the more than 16 conversion projects that it has been involved. "We never do a project where we can't see at least 45% in two years. And if we do not sell in that period, we want to make sure that we see annualized returns of at least 8%," said Kenneth Horn, president

and founder.

Its success has been attracting the attention of opportunity funds and opportunistic investment banks including ING Real Estate and Credit Suisse First Boston, which tend to seek overall IRRs in the neighborhood of 20%. In the last two to three years, the company's performance has been aided by declining interest rates, which have compelled many renters to favor ownership, Horn said. Alchemy, which has completed condo conversions primarily in the Manhattan area at 36-40 West 13th Street, 129 West 20th Street, 136 East 19th Street and 20-26 Greene Street, has tended to be selective with its projects. "We stick to our niche markets and tend not to be deal junkies."

Alchemy aims to complete between two and three deals per year, spending between \$6 million and \$12 million to acquire its properties. The company's success is a function of its ability to manage its risk and its tendency not to overpay or over-leverage its acquisitions. "The key in this environment is not to overreach and try to minimize risks," Horn said. "We might have construction risks on a deal, or market risks, or economic risks but we never want to have risk on every level of the deal," he explained.

Most recently, the company acquired the Gramercy Tavern Building at 42 E. 20th St. for \$180 per square foot. It plans on investing approximately \$170 per square foot into converting the upper levels of the property into 23-prime condominium units. In the end, it hopes that the eventually sale of all of the units will amount to \$60 per square foot of profit, Horn said. So far, it has completed converting about 10 of the units. It hopes to expand into Brooklyn and Queens but wants to complete on-going projects such as Gramercy.