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## Alchemy Initiating Manhattan Condo Conversions

Alchemy Properties is working on kicking off two fresh projects in Manhattan, including a \$26 million renovation of a 120,000 square-foot commercial building. The Manhattan-based high-end condominium conversion company has been encouraged by low interest rates and high demand for home ownership from Manhattanites, said Kenneth Horn, president and founder. "We anticipate the market to remain strong and interest rates to remain low," he said, adding that there is a dearth of high-end condos in Manhattan.

Its planned deals include the conversion of five contiguous brownstones on E. 29<sup>th</sup> St. between Park Avenue South and Lexington Avenue into 45,000 square feet of multi-unit condominium space and a \$26 million gut renovation of a Chelsea property at 121 W. 19<sup>th</sup> St. The company hopes to sell completed units in those properties for \$650-\$700 per square foot.

Alchemy, which has completed condo conversions primarily in the Manhattan area, has tended to be selective. "We want to act

responsibly about investing and be very disciplined about what we pay for properties," Horn commented. The company, for example, recently took a pass on a land parcel being shopped for \$300 per square foot for a ground-up condominium project. Even though the completed units could possibly be sold for three times that number on a per-square-foot basis, Alchemy tends not to underwrite its pro forma numbers for sales at more than \$700 per square foot. "What if the market changes? What if interest rates go up? What if some cataclysmic event occurs?" he said.

The company seeks rich average internal rates of return of at least 45%. It also uses debt of about 65-70%. Alchemy has paired up with 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%. Most recently, the company acquired the Gramercy Tavern Building at 42 E. 20<sup>th</sup> St. for \$180 per square foot, spending \$8.5 million on the conversion. It has existing projects at 36-40 West 13<sup>th</sup> Street, 129 West 20<sup>th</sup> Street, 136 East 19<sup>th</sup> Street and 20-26 Greene Street.