

Report on the Residence of the Consul General of Ireland in New York

Introduction

1. This report responds to the request from A/Sec Fergal Mythan for the Consulate to provide a comprehensive submission on alternative locations for the Residence of the Consul General at a rental cost of less than \$250,000.00 per annum (currently \$360,000.00). The high cost of the rent remains a matter of concern to the Department and one which will have to be addressed in 2015.
2. This report is the culmination of research undertaken by the Consulate since January 2015 with the assistance of Jim Houlihan, Houlihan-Parnes, a well-established and respected real estate expert and trusted member of the Irish community in New York.
3. The conclusions of the Consulate on the best options to achieve this objective are outlined in Paragraph 45-46 below.
4. In particular, the Consulate has identified an option which most closely matches Department's objective and would achieve savings for the Department of at least \$100,800.00 per annum. The disadvantages of downsizing the Residence are outlined at Paragraphs 32-34.

Background

5. The lease on the Residence (240 East 39th Street #52C) was renewed for the period 1 January 2015 – 31 December 2015 on the requirement that a comprehensive submission on achieving the Department's objective of a rental cost of less than \$250,000.00 per annum be submitted.
6. The Consulate has been renting the current Residence since 2002, over which time the rent has increased by 20%. Rental costs are currently \$360,000.00 **plus** \$28,800.00 in service charges and parking, bringing the total to \$388,800.00 per annum.
7. The following criteria were established as the requirements of a functional Residence which would be adequate for the needs of a Consul General, including promotional capacity and with a view to accommodating family living:
 - i. Diplomatic Clause.
 - ii. Wheelchair accessible.
 - iii. A separate kitchen i.e. not galley, of catering standard.
 - iv. Dining room suitable for dining and modest sized networking events with easily accessible WC.
 - v. A separate family room – for officer's children/partner on the numerous occasions when the Residence is in official use.
 - vi. Three bedrooms minimum in a separate section of the apartment i.e. can be accessed without walking through dining room. Either en suite or with two full bathrooms.
 - vii. Outdoor space to facilitate promotional activity highly desirable.
 - viii. A modern, exceptionally high standard aesthetic which portrays the positive and progressive image of Ireland.
 - ix. East side location within close proximity to Consulate.
 - x. Off-street parking.
 - xi. Storage facilities.

- xii. Fully serviced in order to facilitate high level guests and Ministerial visits.

Current Residence

8. The Residence is a much-admired duplex penthouse apartment of 4,000 sq feet divided over two floors with a wraparound balcony offering 360 degree unobstructed views of the New York skyline (floor plan attached at Annex A).
9. This outdoor space with its attendant views is greatly valued by the community and Ireland House partners and is considered to be a unique and prized asset in the New York market. The balcony space lends itself to larger promotional activities in the spring and summer making the Residence a highly sought after event space. This affords the Consulate a competitive advantage in attracting high profile contacts to promotional events in a market whereby such contacts have significant pressures on their time and many competing interests for their presence.
10. The Consulate utilises this space extensively for Presidential, Taoiseach and Ministerial engagements in New York, providing a suitable backdrop for high-level discussions and networking opportunities.
11. The Consulate also fully utilises this space for promotional activity across the entire spectrum of the work of the Consulate including regular economic promotion events involving C-level Board members of top US companies and high profile cultural events attracting the most prominent members of the arts world. The balcony space and views are an oft-cited point of admiration by such guests. Across 2015 to date, 35 promotional events have taken place at the Residence.
12. The property has eight rooms, three of which are bedrooms, offering multipurpose configurations depending on needs. In particular, it offers a separate dining room (on the second floor, accessed by stairs) for smaller gatherings and a larger space for bigger receptions (on the first floor) whilst preserving a separate living/family room (on the second floor) which can be used even whilst official activities are taking place. It can accommodate up to 100 people when at full capacity, which is the normal operational level.
13. However, the property is not wheelchair accessible and no longer meets the requirements for universal access and the Department's commitments in this regard.
14. The configuration, whilst offering the options above, is not optimal with access to the bedrooms necessitating passage through the main living room, which is problematic when the space is being used for promotional work.
15. The kitchen is also modest for catering needs and with no separate access point to the living quarters, resulting in the same difficulties with access to facilities when the Residence is in official use.
16. Owing to the square footage, the unique balcony, prized views and the high end, exclusive nature of the building, the rental costs, the service fees and the parking costs are all high.

17. Though we are currently achieving a preferred rate 11% below the market value, it is envisaged that these costs are likely to only increase in the short-medium term and plateau at best over the longer term. Over the 13 years of rental, the property not been modernised or upgraded either by the Department or by the landlord.

The New York Property Market

18. An October 2015 report by global real estate consultancy firm, *Knight Frank*, on the New York property market puts increases at 78% against 2004 levels.
19. Another October 2015 report by *The Real Deal*, a respected, industry-leading real estate publication, identifies that rent increases this year now position New York as the second most expensive property market in the world.
20. Further market analysis by *Citi Habitats* confirms this, with three bedroom apartment rentals increasing by 2% quarter on quarter in 2015. All of this analysis is shared by Houlihan Parnes, which has extensive in-house market analysis capacity.

Market Research Conducted

21. Over a period of several months, 133 properties (details of which supplied to ASU previously) were reviewed against this criteria and a shortlist of 15 of the most suitable was compiled for viewing and second viewings.
22. The overall assessment from this extensive research is that there is very limited stock of suitable property.
23. Furthermore, to downsize to a Residence which meets the Department's objective of \$250,000.00 and within the necessary criteria, access to the following four main features will be lost:
 1. High capacity promotion space (analysis indicates that a rent ceiling of \$250,000.00 would mean a reduction from 100 people to 40 people);
 2. Additional appropriate outdoor space/balcony;
 3. Commanding views;
 4. Separation between representational space and family living areas.
24. The final viewings have now been completed and the resulting options are listed below.

Option A – Renew Current Lease at 52C

25. The Consul General entered into extensive negotiations with the proprietors of the current Residence in 2014 to secure the best possible rent for the renewal period of 1 January 2015 – 31 December 2015. Against the backdrop of sustained rises in property prices in New York, agreement was reached for no increase on 2014 rates on an exceptional basis (rental cost of \$29,995.00 per month plus \$2,400.00 in service fees and parking).
26. The Consul General is of the view that the landlord will not hold the rent at this level going into 2016. With no rent increases in 2014 or 2015, rental costs for this property can be expected to increase in the region of 3.2%.

27. With the prospective of such rises in the rental costs, investigations were undertaken by the Consulate with the proprietors to establish if the Residence might be made more effective and useable both in terms of family living and promotional activity by addressing the issues already noted above, with the costs of such work to be covered by the landlord. This process of engagement did not yield any results, with the landlord unwilling to consider such improvements.
28. Renewal, therefore, would retain both the current benefits and limitations of the Residence whilst acknowledging the rising rental costs. This option is not being actively pursued, pending further instructions from HQ in relation to other options identified, as it does not meet the Department's objective of a rent ceiling of \$250,000.00.

Option B – Meeting Requirement to Achieve Significant Savings

29. Securing a suitable property for \$20,000.00 per month excluding service fees and parking charges (these are currently \$2,400.00 per month in the current Residence) in the current New York property market is challenging. The stock is limited, as evidenced by the extensive review conducted over eleven months, and sustained rising prices.
30. However, of the 133 properties reviewed and viewed, one rental option has stood out as most closely meeting the Department's objective of a rent ceiling of \$250,000.00 and would yield savings of at least \$100,800.00 per year against the current rental costs.
31. This is Apartment 17B, UN Plaza (47th and 1st) which was brought to our attention through Jim Houlihan and a key member of the Irish community who is prominent within the real estate industry here.
32. This building has only recently been completed and is located opposite the United Nations Plaza within 10mins walk of the Consulate. The apartment, which is on the 17th floor, consists of three bedrooms, 3.5 bathrooms, kitchen, living room and dining room (floor plan attached at Annex B). At 3,000 sq ft, it is a downsizing from the current Residence in terms of capacity for promotional activities and it *does not have a separate family room*. The property *does not have either a balcony or outdoor space*, consistent with the analysis of the market at the Department's price point.
33. However, the layout of the apartment is effective, offering options for promotional use including dining for up to 16 people or standing space for up to 40-50 people; this represents a *downsizing to approx. half the capacity* of the current Residence. Pragmatically, this is manageable as larger events can be accommodated at the Chancery at 345 Park Avenue, which, owing to extensive refurbishment in the past, has a contemporary conference area with a capacity in excess of 200 people.
34. The bedrooms are located away from the living/dining space and as each is en suite plus with access to the kitchen without the need to enter the living/dining space, would be functional for family living when the Residence is in official use. *It does not have a separate family room*.

35. The apartment also contains a service entrance, swing entrance from the kitchen to the dining room and ample closet space at the entrance for coats, luggage etc.
36. It has unobstructed views of the East River and the United Nations building.
37. As it is a new building the finish is to a high standard which would reflect a contemporary, progressive and positive image of Ireland.
38. The asking price is currently \$24,000.00 **all-inclusive** i.e. no service fees (taking our current service fees and parking charges of \$2,400.00 per month as a base line, this brings the actual rental costs to \$21,600.00).
39. As is normal practice here, there will also be one time brokerage fees.
40. Though Houlihan-Parnes is currently engaged in negotiations to achieve the best possible rental cost for our consideration, taking \$24,000.00 as a base line, rental of **this apartment would achieve savings of \$100,800.00 per year** on the current Residence.

Option C – Purchase

41. Research was also conducted on the sales market within New York. Suitable properties meeting the criteria above are currently priced in the region of \$5,000,000.00; though with little stock in Midtown Manhattan, most properties are located in the Upper East Side.
42. Overall, my research points to the purchase option on value for money grounds.
43. With Irish 30 year bonds trading at 2%, the savings on a purchase of an appropriate apartment (including approx. monthly fees) would represent savings of 43% (approximately \$5,000,000.00) when the bond would mature against the rental of the current Residence over the same period.
44. Annex F provides a breakdown of details. It indicates that the purchasing power of the Department's stated rent ceiling of \$250,000.00 per annum over 30 years would acquire a worthwhile asset for the State. New York is one of the world's consistently most sought after real estate markets in which high quality property has not depreciated (a report by the real estate consultants, *Miller Samuel*, identified an increase in property prices over the past 30 years of 420%).

Examples of some appropriate properties for sale:

515 East 72nd offers 2,750 sq feet with five bedrooms, a family room, living/dining space and five bathrooms (floor plan at Annex C).

170 East 87th offers 2,850 sq feet with three bedrooms, family room, living/dining space and four bathrooms (floor plan at Annex D).

325 5th Avenue offers 2,601 sq feet with three bedrooms, family room, living room, dining room, an outdoor terrace and four bathrooms (floor plan at Annex E).

Conclusion

45. On the back of 11 months of thorough research into the Manhattan market by CGNY, it can be concluded that if the Consulate entered the market at the price point of the current costs of the Residence i.e. \$388,800.00 per year, significantly better value for money in terms of the space and functionality than the current property could be achieved. This option is not being pursued as it does not meet the Department's stated objective.
46. Over the longer term, purchasing as per Option C will be better value for money. In the short term, the option which will most closely achieve the Department's objective of a rent ceiling of \$250,000.00 immediately would be Option B: rental of 17B UN Plaza for \$24,000.00 per month, or less.

Shane Cahill
Vice Consul General
5th November 2015

ANNEX F

US\$ Mortgage Approximate Calculations

Purchase Price:	\$5,000,000.00
10% down payment:	\$500,000.00
Loan:	\$4,500,000.00
3.5% Interest over 30 years:	\$2,774,524.00
Total Repayment:	\$7,274,524.00
Monthly Repayments:	\$20,207.00
Service Fees:	<u>\$2,729.00</u>
TOTAL:	\$22,936.00