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## An island Unto Itself

### A look at why the Manhattan market prospers while the rest of the nation falters

By Dorn Townsend

Manhattan home prices rise while U.S. declines	
<b>Manhattan median price</b>	
First quarter 2007:	\$835,000
Change from a year ago:	<b>+1.2%</b>
<b>U.S. median price</b>	
First quarter 2007:	\$214,000
Change from a year ago:	<b>-5.6%</b>

Source: Miller Samuel; National Association of Realtors

New York stands head and shoulders above other metro areas across the country, not only because of its towering skyline.

The city has the highest office rents and hotel rates in the nation.

Residential prices are going up, while the rest of the nation's are heading down.

Manhattan building prices have risen at nearly double the pace of the rest of the United States, and the entire city leads the country in development of multi-unit residential buildings (even if it is third overall in total development).

An in-depth analysis by *The Real Deal* stacked up Gotham against the biggest cities in the country, looking at a variety of sectors including residential, office, hotel, development and building sales.

The study pinpoints New York's unique position in the national landscape, like hotel rates that are \$90 a night higher, on average, than Miami, the second-priciest hotel market in the U.S. Average office rents here are \$25 a square foot higher than in Washington, D.C., the second-most expensive office market in the nation.

Of course, New York's residential market exists almost completely outside of national trends, because property prices in the city remain fueled by record profits from the financial services industry. The hyped-up market is exemplified by deals such as late May's \$56 million purchase of an apartment at the converted Plaza Hotel, the highest price ever paid for a condo in this country.

Nationwide, the median sales price for a home dropped 5.6 percent in the last year, but it rose 1.2 percent in Manhattan.

The difference could grow even more, according to market analysts.

"The disparity between New York and the rest of the country will expand a year from now," says Jonathan Miller, president of appraisal firm Miller Samuel (see [Q & A: NYC soars while U.S. snores](#)). "I am not convinced that the national housing market has hit bottom."

He says credit standards have tightened in the wake of the fallout from the collapse of the subprime lending industry and the subsequent weakness of prime mortgage markets. Miller says this will exaggerate weaknesses in already-hobbled markets.

As for New York, Miller says he "would expect a fairly high level of sales to continue and a fairly accelerated pace of price appreciation six months from now."

The median price for an apartment in Manhattan in the first quarter was \$835,000, nearly four times the national median home price of \$214,000, according to data from Miller Samuel and the National Association of Realtors.

If that seems unexceptional, consider the increase in the number of apartment sales from the first quarter of 2006 to the first quarter of 2007.

In Manhattan, the total shot up by 73.3 percent, to 3,474 sales.

Nationally, the amount of existing home sales during the same period dropped 22.3 percent, to 863,000 sales.

"New York City has become a mecca of prosperity and is unique to itself. You can't look at Manhattan as indicative of the general market anymore," says broker Neil Binder, principal and co-founder of Bellmarc, though he sounded caution on the city's reliance on finance. "If the stock market declines precipitously, the high-end market will as well."

Of course, the boom isn't being felt evenly throughout the region, or even within the city. The number of foreclosures is growing in some parts of New York, particularly in the outer boroughs. The suburban housing market remains sluggish. Further, big-ticket deals are what have been driving the average and median sales prices up. That is, high-end purchases of condos and co-ops have obscured what may be emerging weaknesses in the middle of the market (see [Residential market weak in the middle](#)).

Still, the imbalance between New York City and the rest of the country is causing real estate analysts to ponder two questions: Why the continued affluence? And how long can it last?

No one reason suffices. Accelerating incomes, interest rates that are still relatively low, slowness in the supply of new apartment buildings and land-use restrictions are part of the story. Some of the city's

keenest real estate minds see the financial fate of the city as increasingly remote from goings-on in the hinterlands.

"In this globalized age, it makes more sense to compare the New York market to the markets in London or Shanghai than to cities like St. Louis and Tampa," said Frederick Peters, president of Warburg Realty Partnership.

Peters' position echoes the "Superstar City" theory, a notion put forward by economists at Columbia University and the University of Pennsylvania. The theory contends that wealthier Americans are increasingly concentrating in several cities where declining supplies of land are leading to an uptick in property values.

According to this view, several U.S. cities are becoming luxury hot spots: Property values in places such as New York, Seattle and San Francisco will continue to appreciate because there are no close substitute cities, thus keeping the supply inelastic and leading to concentrations of wealthy people.

The Superstar City theory has dissenters who predict the real estate boom New York City is experiencing will run its course. Like past New York City real estate bubbles, the situation could be swiftly and dramatically reversed by unforeseeable geo-political or economic ruptures.

"New York City can't keep appreciating relative to the rest of the country. This requires that people continue finding it imperative to live in Manhattan," says Robert Schiller, an economist at Yale University and author of "Irrational Exuberance," a book that famously foresaw the implosion of the dot-com bubble. He's taken a similarly skeptical view on housing but, even so, says the city is still a bit exceptional.

"Real estate could come down substantially, but even if it does, New York City will still be expensive."