

THE REAL DEAL

New York Real Estate News

Review of a regrettable year

Until recently, it seemed like New York City's real estate market was the exception to the rule. Unlike the rest of the U.S., what went up here showed few signs of going down, at least not dramatically. However, after Wall Street as we knew it collapsed in September, the question became how low the city's commercial and housing markets would go. While we'll possibly only begin to answer that question this year, a review of the events of the past 12 months indicates we have definitively exited the boom years. On the residential end, there were fewer and fewer deals inked, and inventory was sitting on the market longer. In the commercial world, office vacancy rose and rents dropped, and some of the industry's most powerful players, like Harry Macklowe, found they were unable to pay the piper when loans came due. Meanwhile, some of the city's biggest development projects, such as Atlantic Yards, now seem to be on life support, and it's unclear whether they will ever see the light of day.

January

News broke of Harry Macklowe's inability to pay off loans associated with his multi-billion-dollar purchase of seven Midtown office buildings from Equity Office Properties, setting the stage for a drama that would play out for much of 2008. In response, Macklowe began marketing his crown jewel, the GM Building, which early reports suggested might sell for as much as \$3.5 billion. Toward the end of the month, the City Planning Commission approved developer Sheldon Solow's long-held plans to build a mega-project near the United Nations with 4,000 units of housing. Meanwhile, two construction-related deaths in January — one at the Trump Soho condo-hotel site and the other at a development site in Clinton Hill, Brooklyn — focused attention on construction safety. Reports about the New York City residential market continued to be fairly upbeat, however, with particularly brisk sales noted at new developments in Manhattan. The Department of Finance, though, released statistics showing that New York City property values had increased an estimated 1.4 percent in the past fiscal year, a slowing from the previous year's increase of 19 percent. Nationally, the picture was much worse: The National Association of Realtors reported that sales of single-family homes fell 13 percent in 2007, the biggest decline since 1982, while the median price of a U.S. home fell for the first time since at least 1968.

February

News broke of one of the largest residential transactions in Queens in recent years, the \$300 million purchase of 47 apartment buildings by Vantage Properties. Manhattan's high-end residential market was also strong, as public records for January indicated a record-setting level of sale prices for apartments, a number that was buoyed by pricey closings at 15 Central Park West. There were even reports that the sale of the Milbank Mansion on East 67th Street, once owned by Penthouse magazine founder Bob Guccione, would break the \$53 million record for the most-expensive townhouse sale in the city, although it ultimately closed for \$49 million. Still, month-over-month foreclosure statistics released by

PropertyShark.com showed trouble in all five boroughs, with foreclosure auctions up 184 percent on Staten Island and 150 percent in Queens. City and state officials said they were girding for a precipitous drop in tax revenues from real estate transactions in 2008 and 2009, estimating that commercial sales volume would be down 39 percent, and that mortgage recording taxes would also plummet. In Brooklyn, there was bad news concerning two big developments: John Catsimatidis announced that he was putting his large, mixed-use Myrtle Avenue development on hold because of financing troubles, and Forest City Ratner dropped plans for its City Tech tower, a Renzo Piano-designed building that was supposed to be Brooklyn's tallest skyscraper. Macklowe, meanwhile, technically defaulted on \$5.8 billion in debt, although a deal was subsequently hammered out with lenders giving him an extension in order to sell his Equity Office Properties portfolio.

March

The appointment of David Paterson as governor to replace scandal-plagued Eliot Spitzer made the future of the renovation of Pennsylvania Station, a.k.a. Moynihan Station, seem particularly shaky, as Spitzer had been one of the project's main proponents. Indeed, an obituary for Moynihan Station had been written by the end of the month. Question marks were also raised about whether the new governor would affect the scope or timeline for the World Trade Center site; if Paterson would follow through on the \$400 million affordable housing fund Spitzer had announced he would initiate at the start of the year, and whether he would continue to be the critic of eminent domain he had been during his days as a state senator. The MTA announced that Tishman Speyer was the winning bidder for the massive redevelopment of Hudson Yards on the West Side, and the Plaza Hotel re-opened after the El-Ad Group completed a three-year, \$400 million renovation of the landmark property. However, some big development plans crashed — Forest City Ratner told the New York Times that its Atlantic Yards development in Brooklyn faced significant delays because of the credit crisis and legal challenges, and the Related Companies' plans for a massive entertainment center at Pier 40 were rejected by the Hudson River Park Trust. There was also great upheaval in the financial market when JPMorgan Chase reached a deal to buy Bear Stearns for \$2 a share; JPMorgan took over Bear's headquarters at 383 Madison Avenue, but said the acquisition of the property would not imperil its plans to develop a tower at the World Trade Center. In the middle of the month, a crane collapse at an East 51st Street construction site killed seven people, an event that would lead to a growing chorus of calls for reform at the Department of Buildings.

April

Shortly after another worker died at a construction site, this time on the Upper East Side, Patricia Lancaster, commissioner of the Department of Buildings, resigned. Meanwhile, the City Council approved one of the most controversial development programs of the Bloomberg administration by voting in favor of rezoning Harlem's 125th Street in an effort to create 1 million square feet of new office space, 90,000 square feet of non-profit and visual arts space, and more than 3,800 new apartments. State lawmakers, however, killed Mayor Bloomberg's congestion pricing plan. Market reports for the first quarter indicated that Manhattan's residential market was weakening: Appraisal company Miller Samuel's report for Prudential Douglas Elliman showed that while the average sales price was up 19.7 percent from the prior quarter to \$1.7 million, the increase was mostly attributed to high-ticket closings, and there was a 9.4 percent drop in sales and an 11.7 percent rise in the number of days properties stayed on the market from the year before. The developer of what was to be one of Manhattan's flashiest new buildings, the "sky cubes" at 80 South Street, announced that the site was for sale, effectively killing the project. The Santiago Calatrava building, which had first been announced in 2005, was supposed to be comprised of \$35 million townhouses stacked on top of each other.

May

While a property that traded in Dumbo for \$7 million became the most expensive condo to ever sell in Brooklyn, Toll Brothers CEO Robert Toll said sales in the borough had "faded." Plans were announced for a scale-backed Miss Brooklyn, the signature Frank Gehry tower at Atlantic Yards; however, developer Bruce Ratner wrote an op-ed in the Daily News saying the project was far from dead. Manhattan fared better: After Tishman Speyer backed out of its deal to develop Hudson Yards, the MTA announced that it had reached a tentative, \$1.054 billion agreement with the Related Companies to develop the site. The Freedom Tower at the World Trade Center site rose above street level for the first time. Also, a group led by Mortimer Zuckerman's Boston Properties announced that it would purchase the GM Building from the Macklowes for \$2.9 billion (the highest price ever paid for an American office tower), as well as buy three other Macklowe office towers — 540 Madison Avenue, 125 West 55th Street and Two Grand Central Tower — for a grand total of about \$3.95 billion. In the residential market, there were also stratospheric hopes. In the span of one week, there were three closings recorded at 15 Central Park West for more than \$20 million each, and one buyer at the building was reportedly trying to flip his \$30 million condo for \$90 million. In Tribeca, a townhouse hit the market for \$35 million — a price that, if realized, would make it the most expensive single-family home to sell south of 14th Street. The city began to crack down on unsafe work at construction sites and announced it would hire more DOB inspectors, but before the month was out, another crane collapse on the Upper East Side claimed two lives.

June

The state attorney general's office approved offering plans for the Aphorp, the sprawling Upper West Side prewar rental that Mann Realty and Africa Israel Investments proposed transforming into a condo with an average price of \$6.5 million per unit, or \$3,000 a foot — slightly above the initial asking prices at 15 Central Park West and just below those at the Plaza. The island's commercial scene, however, had witnessed better days: For the first time in six years, effective rents on office space began to fall, according to executives at Newmark Knight Frank and GVA Williams. Across the East River, one of the biggest retail debuts of the year occurred when Ikea opened its first New York City store in Red Hook. In other Brooklyn news, government agencies and the owners of the 5,881-unit Starrett City in East New York reached a deal for a future sale of the project that would preserve its affordability, and the Landmarks Preservation Commission approved plans for the development of Williamsburg's Domino Sugar Refinery, a project including thousands of units of housing. On the construction front, the city's chief crane inspector was arrested on charges of taking bribes, and the city also filed charges against one of Brooklyn's most prolific and controversial architects, Robert Scarano. While one big project, Queens' Willets Point, got a boost when the Economic Development Corp. signed its first agreements with property owners in the area, another, the planned 1,200-room Javits Hotel, was killed. Meanwhile, two of commercial real estate's biggest players, Jones Lang LaSalle and the Staubach Company, arranged a \$613 million merger.

July

Mortgage giants Fannie Mae and Freddie Mac grabbed headlines for much of July as news broke that both were on the brink of insolvency. By the end of the month, a \$300 billion housing rescue bill had passed Congress and been signed into law by President Bush. The bill's aims were to support Fannie and Freddie and to help homeowners avoid foreclosure. In New York, the number of offering plans accepted by the attorney general's office was down 19 percent for the first few months of the year as compared to the same period in 2007, a sign that the development boom was grinding to a halt. Some older properties in the city were still paying off handsomely, though: The most expensive co-op sale ever in Manhattan closed when Jonathan Tisch, the chairman and chief executive of Loews Hotels, paid \$48 million for a 14-room unit at 2 East 67th Street. A few blocks south, the mansion at 603 Park

Avenue sold for \$31.8 million, after being on and off the market for nearly two decades. Meanwhile, Congressman Charles Rangel came under fire after the New York Times reported that he had leased four rent-stabilized apartments in Harlem; Rangel subsequently announced he would let go of one of them. Elsewhere in the rent-stabilized world, Tishman Speyer saw its revenues fall at Stuyvesant Town and Peter Cooper Village, despite having converted 560 apartments to market-rate rentals in the prior year.

August

Larry Gluck, one of the city's biggest landlords, told his lenders that he was about to default on a \$225 million loan for Harlem's 1,230-unit Riverton Houses complex. The news made housing advocates worry about the fate of other rent-stabilized buildings, which had traded at a rapid clip during the boom. The Justice Department sued AvalonBay Communities for allegedly violating the Fair Housing Act at its Lower East Side building, Avalon Chrystie Place, saying the developer had not made its 362-unit rental accessible to disabled people. In the wake of the suit, other developers and landlords across the city feared they would need to spend millions in renovations in order to make sure their buildings complied with the law. Robert LiMandri, acting Department of Buildings commissioner, was made the permanent commissioner after the City Council changed its requirements for the position so that it didn't need to be filled by a licensed engineer or architect. There was retail news around the city when the first supermarket in Long Island City opened, and Whole Foods announced it would open another store in Midtown by 2012, giving New York the largest cluster of Whole Foods in the country. Finally, the 15-year-old weekend flea market Antiques Garage announced it might have to move from Chelsea to Hell's Kitchen because of soaring rents; it was reportedly Chelsea's last remaining flea market. On the state level, Governor Paterson signed a foreclosure-avoidance bill that gave struggling owners an extra 90 days to try and keep their homes.

September

The financial system as everyone knew it fell apart: Near the beginning of the month, Fannie Mae and Freddie Mac were effectively nationalized; JPMorgan bought Washington Mutual; Citigroup acquired Wachovia's banking operations; Bank of America agreed to buy Merrill Lynch; Lehman Brothers filed for bankruptcy; the government issued an emergency loan to rescue AIG; Goldman Sachs and Morgan Stanley became bank holding companies, and on Sept. 29th, the Dow fell 777.68 points, the largest one-day drop in history. Amidst the very real specter of tens of thousands of vanished Wall Street jobs, a sharp decline in bonuses, and a lack of demand for office space, brokerages both residential and commercial girded for a bleak fall and winter. Macklowe's troubles weren't over as he faced the foreclosure of the site of the former Drake Hotel. The group of bidders for Starrett City shrank to two, and the Brooklyn affordable housing complex was expected to sell for up to \$900 million — far less than the \$1.3 billion rejected by the Department of Housing and Urban Development in 2007. Faced with stagnant sales, more and more developers across the city tried to woo buyers to their condos by offering rent-to-own options. Finally, it was a month of goodbyes for New York: The Yankees played their last game at the House that Ruth Built, the Mets played their last game at Shea, and Coney Island's Astroland closed.

October

Some developers tried to use the looming presidential election to woo condo buyers: Chelsea's +Art condo offered to let buyers who signed contracts before Nov. 4 back out if John McCain won the presidential race, and Williamsburg's Edge condominium put a giant banner on its building that read, "Sarah Palin, live here, see Wall Street." It was a good month for the Edge, where a \$5.145 million duplex was sold, the most expensive condo sale ever in Williamsburg. Brooklyn Heights also saw the sale of its most expensive home ever, when a house sold for \$10.8 million. On balance, however, it

wasn't a cheery 31 days for real estate. The DOB recorded only three new building permits filed for Manhattan construction in the prior month, an 87 percent drop from the same month in 2007. For the third quarter in a row, Manhattan saw a double-digit decrease in apartment sales, with the number of sales dropping 24.1 percent from the same period a year prior, according to a Miller Samuel report. Listing inventory leaped 34.6 percent in the same period. Several hotel projects, such as the Nobu Hotel and Residences in Lower Manhattan, were reportedly stalled, and analysts predicted that any proposed hotels without construction loans in place would not be built for at least a year in the climate of the current market. It wasn't a banner month for developer Kent Swig, either, as he announced a temporary suspension of sales at his 25 Broad condo conversion because of Lehman Brothers' bankruptcy filing. About a week later, during a dispute over a failed project, developer Yair Levy allegedly struck Swig with an ice bucket.

November

A report released by real estate appraiser Mitchell, Maxwell & Jackson about Manhattan residential sales volume in September and October did not auger well: The firm found that the number of contracts signed in the two-month period was down 75 percent from the same time in 2007. High-end residential brokers braced for an austere Wall Street bonus season as a report from New York-based compensation consulting firm Johnson Associates predicted that year-end incentives for Wall Street's senior managers would plunge by up to 70 percent, while average bonuses would likely drop by 20 to 35 percent. Some condo developers tried to boost sluggish sales by offering price protection programs, guaranteeing buyers a discount at closing if prices went down, a strategy common in troubled markets in Florida but new to the city. The biggest residential and commercial brokerages — including Prudential Douglas Elliman, the Corcoran Group, CB Richard Ellis and Cushman & Wakefield — announced that they were canceling their holiday parties, with the heads of most firms saying it wasn't appropriate to celebrate given the troubled economic climate. Despite the fragility of the commercial market, however, one of the city's largest residential firms, Halstead Property, announced that it would form an investment sales division and enter the world of commercial real estate for the first time. Meanwhile, three massive projects were approved by the City Council: The 111-block rezoning of the Lower East Side and East Village, the \$3 billion redevelopment of Willets Point in Queens, and the 30-acre, largely affordable Hunter Point South redevelopment, also in Queens. A big real estate deal, however, was put on pause, when the MTA and the Related Companies failed to sign a contract for Hudson Yards. At least one other boldface project made progress, though: Trump Soho, the condo-hotel where a construction worker fell to his death in January, topped off, making it the tallest building in the neighborhood.

December*

The revelation that financier Bernard Madoff had allegedly been conducting one of the largest frauds in history with his multi-billion-dollar Ponzi scheme rocked the city's real estate world, scuttling pending residential deals for Madoff's investors and threatening the projects of developers who had money tied up with him. There was also bleak news about Manhattan's residential market, as the Federal Reserve Board released a report based on data provided by appraisal firm Miller Samuel indicating that the island's co-op and condo prices were down 20 percent since mid-summer. There was yet more evidence of a citywide development slowdown as the Department of Buildings reported a 65 percent drop in the number of demolition permits in November compared to the year before. As of the beginning of the month, meanwhile, there had only been two Manhattan building sales for more than \$90 million in the fourth quarter, while there were 41 such transactions during the same period in 2007. On a more positive note, PropertyShark.com reported that November home foreclosures were at their lowest level of the year, although the real estate data Web site's CEO warned that there was likely to be an increase in city foreclosures in coming months tied to job losses. Forest City Ratner, meanwhile, announced it

was suspending work on its \$4.2 billion Atlantic Yards project because of the economy, and architects at Frank Gehry's firm working on the development's design were laid off. One of the city's top real estate investment sales brokerages, Massey Knakal Realty Services, was reportedly seeking equity partners because of the stagnant commercial market. Starrett City's pool of potential buyers shrank to only one, a group of investors that planned to offer around \$700 million for the affordable housing complex, far less than the \$1.3 billion previously offered.

**Includes news that broke between Dec. 1 and 20, 2008*

By Gabby Warshawer