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The Manhattan Real Estate Slump That Wasn't

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IT wasn't supposed to happen this way.

Just a year ago, as real estate brokers fretted through an ominously quiet third quarter, many Manhattanites waited for the housing market to reverse its madcap ascent and fall into line with the rest of the country.

But something happened on the way to the Great [Manhattan](#) Housing Slump. After what brokers optimistically termed a "pause" in the second half of 2006, buyers swarmed into the market. The torrent was so intense that by the end of this past June, it was clear that an astonishing gulf had opened up between Manhattan and nearly everywhere else.

On the national level, sales of existing homes slowed by 17 percent in the second quarter of 2007, compared with the second quarter of 2006, while inventory swelled by 16 percent, according to figures provided by the [National Association of Realtors](#). New homes fared even worse: they fell by almost 19 percent, according to Commerce Department figures.

In Manhattan, by comparison, sales of new and existing apartments more than doubled. In a trend that could shift quickly in light of the recent problems in the credit and stock markets, inventory shed a third of its bulk. It dropped to 5,237 units, despite the influx of several thousand new condos, according to Miller Samuel Inc., the Manhattan appraisal company

Prices have been starkly different as well. By last month, the national picture was so dire that Angelo R. Mozilo, the chairman and chief executive of Countrywide Financial, the country's largest mortgage lender, said things had not been so bleak since the Depression.

Cut to Manhattan. After a boom with annual price increases of 20 percent or more ended in mid-2005, prices have continued to rise over all, but not as sharply. In the second quarter of 2007, Miller Samuel said the average sale price of a Manhattan studio climbed 16.5 percent compared with the second quarter of 2005. The average for a one-bedroom climbed by 18.4 percent and a two-bedroom by 5.9 percent.

Apartments with three bedrooms, which make up about 6 percent of the market but appeal to an ever-more-moneyed class of buyers, rose by 17.9 percent in the same period.

Major brokerages, including Halstead Property, Bellmarc Realty, Brown Harris Stevens, Prudential Douglas Elliman and the Corcoran Group, say they are recording sales and profits that rival boom-time results. In fact, Douglas Elliman and Corcoran predict that this will be their most lucrative year by far.

Whether this momentum can be sustained remains to be seen, particularly in light of the recent gyrations in the debt market, which have led to a reduction in the availability of large mortgages and to an increase in their rates. A deepening credit-market crisis and national housing slump could squeeze the economy, the stock market and bonus pools.

“For the first time in over a year, there is some negative talk — about the credit markets and whether or not this will permeate the [New York City](#) real estate market,” said Pamela Liebman, president of Corcoran. “As of right now, it hasn’t. There has been no slowdown.” She said the biggest concern among her agents is finding enough inventory to satisfy demand.

But a buying binge alone does not a housing boom make. “I’m still not characterizing the market right now as a housing boom except in the upper echelon,” said Jonathan Miller, president of Miller Samuel.

So how has Manhattan (and, to a lesser extent, sought-after pockets of [Brooklyn](#)) managed to avoid a slump?

“Obviously, the market was helped first by the rumor and the reality of bonus money,” said Frederick W. Peters, president of Warburg Realty. He was referring to the fourth straight year of substantial bonus increases, particularly on Wall Street, that along with a rising stock market helped push buyers off the sidelines at the end of 2006 and caused some agents to cancel their winter vacations.

“But I also think we’re just in one of those demographic upswing periods,” Mr. Peters added. “More people are moving into the city, fewer people are moving out, and the rental market got much tighter over the course of 2006, which once again made buying a more attractive option. You put all those things together, and the market sort of entered the narrow part of the hourglass.”

There were other factors to consider, too. Tourism is at record highs, and the local economy is doing well in general. And it’s nearly as hard to find premium office space or a spot in private school as it is to find a family-size apartment.

But that’s exactly what more and more families have set their sights on.

It has been years since Samantha Kleier Forbes, a broker at Gumley Haft Kleier, lost a client to the suburbs. “My last casualty was in ’04,” she said. As two-career couples work longer hours and as the city grows safer and more family-friendly, there is a big demand for large apartments like Classic 6’s — a two-bedroom apartment with living room, dining room, kitchen and maid’s room (where children can be found bunking like sailors).

Families who want to stay, brokers say, are only one segment of the more stratified and well-heeled masses clamoring for a piece of Manhattan. While the dollar’s seemingly endless slide may have crimped the foreign vacation plans of many Americans, the purchasing power of Europeans has strengthened. They are increasingly matched, if not outmatched, by buyers from countries like China and India. And foreign buyers find Manhattan real estate very appealing when they compare prices in other large international cities like London.

“I’ve had 20 percent more business from international clients in the past couple of years,” said Sallie Stern, a senior vice president and managing director of Brown Harris Stevens. “They probably account for 30 to 35 percent. It’s a world market now.”

Shaun Osher, the chief executive of CORE Group Marketing, which is handling 11 condominium projects in Manhattan, said the number of foreign apartment-seekers had doubled since the end of 2005. Foreign buyers now constitute 5 to 10 percent of the sales in the buildings marketed by his firms.

“When you look at hotel rates and what it costs to come into Manhattan, it makes sense now to buy a pied-à-terre,” he said.

Besides foreign buyers, brokers say, more parents are snapping up apartments for their children, and some retirees are choosing Manhattan over the likes of Boca Raton.

“The baby boomer generation isn’t ready to give up and live in a swamp,” said Darren Sukenik, an executive vice president of Prudential Douglas Elliman. In fact, they are living the lives their nearby

children would like to lead if only they weren't working so hard, he said.

Meanwhile, renters have emerged as a force in the market, particularly for entry-level apartments. "Rents are rising again, and that pushes people back into the condo and co-op market if they have more than a one- or two-year time frame for living in Manhattan," said Stephen G. Kliegerman, the executive director of marketing for new developments at Halstead Property.

Fanning the flames have been job and population growth, historically low interest rates and a trove of personal wealth minted by hedge funds, private equity firms and, to a lesser extent, the investment banks that serve them. Add to that the psychological comfort of knowing that Manhattan flourished after the Sept. 11 terrorist attacks, and further, that it appears to have shrugged off a national housing slump.

Even the condo glut that so many real estate executives feared has turned out instead to be a boon of sorts. "If we didn't have new development coming on at the pace we did, we'd have a chronic shortage across all sectors, and we'd see 20 percent price growth," said Mr. Miller, the appraiser.

Mr. Peters of Warburg Realty agreed. "You can't even imagine how awful it would be," he said. On the other hand, he added, things may feel pretty awful already for buyers who want a prewar apartment, since inventory in this sector continues to evaporate. In the last two years, co-ops, about half of which were built before World War II, have slipped from 63 percent of the market to 47 percent as new condos have been built, Miller Samuel said.

"There are so many new units coming on the market and being sold, but the real heart and soul of the co-op market is really depleted," said Barbara Fox, the president of the Fox Residential Group, a Manhattan brokerage.

Consequently, brokers say, many prewar apartments in good condition, along with family-size apartments of any vintage, are being snatched up in bidding wars whose aggressiveness outrivals those of two years ago.

"The new rule is that there are no rules, and when you're lying bleeding on your way to the emergency room, you're still shouting, 'Higher offer, higher offer!'" said Julie Friedman, a senior associate broker at Bellmarc.

She was among the many brokers who said that "best and final" offers have largely become neither, with buyers and sellers routinely negotiating after another bid has been accepted. "You remind sellers that there is a moral component, but my duty is to get the highest amount, and 'moral' and 'the highest amount' don't necessarily overlap," she said.

Some brokers complained that the demise of the sealed bid, which has been replaced over the last two or three years by e-mail offers to the seller's agent, has further undermined fair play. "Buyers don't trust them as much," said Michele Kleier, president of Gumley Haft Kleier.

Whether Manhattan continues to be the land the slump forgot or is merely sunning itself before a hurricane is something of a guess. A strengthening dollar, a severe terrorist attack or a national economy hobbled by housing market woes could inflict blows of varying strengths.

More immediate is the worry about the availability of credit. "While I don't think we were propped up to the extent other markets were by subprime and adjustable-rate mortgages, it does make credit hard to get for everyone to some degree," said Gregory J. Heym, an economist for Brown Harris Stevens and Halstead Property. "Most people are probably expecting mortgages to be tougher to get."

Mortgage lenders everywhere are going back to pre-boom lending standards, so obtaining a mortgage is harder for buyers with pockmarked credit or sketchy employment. But there is no panic over rising

mortgage rates on jumbo loans (those exceeding \$417,000), at least not now.

Large lenders like Chase and HSBC that typically sell mortgages after they make them can no longer do so because the credit crisis has dried up the secondary market, said Jeffrey Appel, a senior vice president and the director of new development financing at the Preferred Empire Mortgage Company in New York. Many large institutional lenders have raised their rates as a hedge against uncertainty, but rates at smaller regional savings banks, the so-called portfolio lenders who hang on to their loans, have hardly budged.

Last Monday, Melissa L. Cohn, the president of the Manhattan Mortgage Company, the largest residential mortgage broker in the New York, [New Jersey](#) and [Connecticut](#), said her best rate on a 30-year \$1 million mortgage was 6 7/8 percent, offered by a portfolio lender. And her worst rate, offered by a lender that sells mortgages on the secondary market, was 8 3/8 percent.

“Despite this incredible hysteria,” Ms. Cohn said, “there’s plenty of money for qualified borrowers.”

The credit-market meltdown could yet cloud Manhattan’s real estate prospects because of stock-market jitters. And an end to the leveraged buyout boom, if that happens, could trigger layoffs on Wall Street and eat away at bonuses.

But the fiscal year is far enough along that financial services workers can expect gains of 10 to 15 percent when bonus season rolls around later this year, said Alan Johnson, the managing director of Johnson Associates, a Wall Street compensation consultant. The real pain, if there is any to be felt, would come in the 2008-09 bonus season, he said, and a year or two later for private equity firms, which typically make their profits several years after a takeover.

“Pay is going to probably drop, but if it’s dropping from a really, really high level, we’re probably not going to have any charity dinners for these people,” Mr. Johnson said.

By then, too, the flow of new development is expected to slow significantly, judging from the dwindling number of construction permits filed this year. To the extent Manhattan’s housing market is threatened by a weak national economy and by declining bonuses, said Mr. Miller of Miller Samuel, “then the fact that we have a lower level of supply coming on would help keep the market from correcting.”

Neil Binder, a principal in Bellmarc Realty and a 30-year industry veteran, typically views upturns with a jaundiced eye. But in a residential market with tight supply and intense demand, he doesn’t see Manhattan’s real estate karma changing anytime soon, even in the face of mortgage-market turmoil.

“My brokers are saying their biggest frustration is to have buyers when there’s no product and that there’s nothing out there but new construction,” Mr. Binder said. “We may have bumps, but I don’t feel the underpinnings are weakening. My biggest problem this month is that I have all my salespeople taking vacations because they made so much money. My East Side office is a ghost town.”