

THE REAL DEAL

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Market awaits bonus buys

By Juliette Fairley

The scorching hot pace of the Manhattan apartment market cooled a bit in the last three months of 2004, but prices still closed out the year 15 percent above the end of 2003, according to a recent report.

The average apartment price dropped 2.6 percent to \$1,041,430 in the fourth quarter, down from \$1,069,445 in the preceding three-month period, according to the Douglas Elliman Manhattan Market Overview, compiled by appraisal firm Miller Samuel.

Prices increased by 15.3 percent over the fourth quarter of 2003, when the average price was \$903,259. The average price first hit the \$1 million mark in the second quarter of last year.

Inventory took a noticeable drop in the last few months of the year, with listings plunging to 3,922 from 5,112 the previous quarter, a 23.3 percent decline. Listings were down 19 percent compared to a year ago.

Jonathan Miller, president of Miller Samuel, said he was optimistic about the market as a whole, despite a drop in listings.

"There's a smaller supply of apartments than there was a year ago but we're poised for a better economic situation in terms of personal income," said Miller.

Although the sale of a Fifth Avenue apartment to Rupert Murdoch for \$44 million broke a price record in mid-December, another sale at the end of the month -- the \$45 million purchase of the waterfront estate called Burnt Point in the Hamptons -- took the title of the most expensive home buy ever in New York State. Pharmaceutical distributor Stewart Rahr acquired the 18,000-square-foot property from David Campbell, a commodities trader.

Brokers said the high-end market was revitalized by both big purchases, and that the outlook is good for purchases made with Wall Street bonuses. Once Wall Streeters' checks are cut, a market surge is expected in February.

"Wall Street bonuses are up 10 to 15 percent," said Miller. "We will see that reinvested in Manhattan real estate by the end of first quarter 2005."

New York State Comptroller Alan Hevesi pegged Wall Street bonuses at a more modest 8 percent increase over 2003. Overall, there are some 158,000 recipients of bonuses in the city this year, the Comptroller's office found.

Foreign buyers looking to realize gains against the weak dollar are also a source of anticipated activity. Jim Mazzeo, president of Weichert Realtors, Mazzeo Agency, said the emerging influence of Korean and Chinese purchasers is even more important than continued activity by Europeans bolstered by a strong exchange rate.

"The European dollar is more a factor on commercial sales by foreign companies, but individual apartment sales are driven by the Asian dollar," said Mazzeo. "The economic factors that are affecting us are not affecting the Koreans or Chinese. They are buying condos, which is fueling condo conversions."

The buying frenzy may slow somewhat if interest rates rise this year, a distinct possibility. In 2004, the Federal Reserve Board raised the federal funds rate five times by .25 basis points.

"I think the interest rates have to go up, the way we are borrowing money," said Mazzeo.

Miller said the market continues to be mortgage-rate driven, thanks to still-low interest rates.

"In the last month of 2004 we saw them rise modestly, but they are still at low levels, which fueled apartment sales in late December and early January," he said in mid-January.

Will prices keep rising? Dottie Herman thinks so.

The CEO of Douglas Elliman expects apartment prices to continue rising in 2005, though not as much as the previous three years. Overall, the outlook for 2005 is optimistic despite some unresolved issues.

"We still have the Iraq war to be concerned about," she said. "We're also concerned about potentially rising mortgage and oil prices. These are worrisome but 2005 should be better than 2004."

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