

## Lost Bonuses Mean Manhattan Home Prices to Drop Most Since '80

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By Oshrat Carmiel



March 19 (Bloomberg) -- Patty Farmer bought a \$5.6 million one-bedroom apartment at the [Plaza](#) on Fifth Avenue in 2006, when buyers were lining up for the landmark building. When she put it up for sale two years later for \$8.4 million, there were no takers.

“The offers were so silly,” said Farmer, a former model who manages her own money for a living. “People were like: ‘Oh, an apartment in the Plaza, why don’t you show it to me?’ But people weren’t buying.”

She took the unit off the market in December.

Manhattan apartment sales declined 23 percent last year as the [Dow Jones Industrial Average](#) fell the most since the Great Depression. Now co-operative and condominium prices are dropping as Wall Street firms cut the bonuses that contributed to the property market boom of the past decade.

A 50 percent reduction in bonuses would push down prices by about 24 percent from their peak through mid-2010, said [Sam Chandan](#), chief economist at property research firm [Real Estate Economics LLC](#) in New York. That would mark the biggest slide since 1980 when appraiser [Miller Samuel Inc.](#) started tracking Manhattan prices.

“This will probably be the worst price correction the city has seen,” said [Marisa Di Natale](#), senior economist at Moody’s Economy.com in West Chester, Pennsylvania.

When bonuses climbed 114 percent between 1998 and 2000, Manhattan co-op and condo prices followed, rising 51 percent during those years, data compiled by Miller Samuel show.

## Sliding Prices

“If bonuses next year are expected at or below the current level, then prices will slide,” Miller Samuel President Jonathan Miller said.

Sales of Manhattan condominiums and co-ops priced at \$10 million or more fell 60 percent in the fourth quarter from a year earlier, the New York City’s Independent Budget Office said. Transactions involving Manhattan apartments valued at \$1 million or more dropped 21 percent in the same period.

The securities industry accounted for 51 percent of the growth in wages in Manhattan’s private sector from 2003 to 2007, according to the U.S. Bureau of Labor Statistics.

[Financial firms](#) disbursed \$18.4 billion of bonuses last year, down from \$32.9 billion in 2007, New York State Comptroller [Thomas DiNapoli](#) said in a January [report](#). The average bonus declined 37 percent to \$112,000, according to DiNapoli’s office.

New York City budget officials [estimate](#) bonuses will fall 50 percent in the fiscal year ending in June from a year earlier, and will decline further in fiscal 2010.

## Hedge Fund Reject

Manhattan is already feeling the pinch. Real estate broker Lawrence Rich thought he had the perfect match when he paired a Wall Street buyer with a \$1.8 million apartment in Chelsea.

His client had a 30 percent down payment and [financing](#) lined up to purchase the triplex. The building’s co-op board rejected him because he worked at a hedge fund.

“They were asking him if he was going to keep his job, they were asking him about his bonus,” said Rich, who works for Prudential Douglas Elliman Real Estate in New York. The hedge fund employee abandoned his effort to buy and is now renting.

Apartment prices have dropped 15 percent in Manhattan and may fall another 11 percent to a median of about \$820,000 in the next 12 months, said Chandan of Real Estate Economics. If bonuses are eliminated, prices would slump by another 20 percent to 24 percent to a median of \$730,000, he said.

“If there’s a shock to income in the city or a shock to employment, that changes the demand side in the short term and prices adjust to that,” Chandan said.

## Stalled Deals

Right now transactions are stalled with some buyers refusing to make an offer unless prices are reduced, said [Josh Guberman](#), chief executive officer of Core Development Group LLC, which builds luxury condos in Manhattan.

“It’s literally this kind of Western standoff now, where buyers have their guns drawn and are ready to go, and the sellers are there, guns drawn wanting to make a move,” Guberman said.

His group sold the last two duplex apartments at the Legacy on East 84th Street in January after cutting the price on one to \$3.25 million and the other to \$2.8 million, both down from \$4 million.

[Paul Purcell](#), a partner at Manhattan real estate consulting firm Braddock & Purcell, said clients who approach him for advice are looking for even bigger price reductions.

“They’re saying ‘The [Dow](#) is down 40 percent, I want real estate to reflect that,’” he said.

### Price Cuts

On Manhattan’s Upper East Side, the price for a 15-room duplex at [740 Park Ave.](#), the building that has been home to former Merrill Lynch & Co. Chief Executive Officer [John Thain](#) and cosmetics billionaire [Ronald Lauder](#), was cut by 26 percent in January to \$26 million, according to real estate Web site Streeteasy.com.

The 6,700 square-foot duplex, owned by late investment banker Randolph Speight for more than 40 years, features a private elevator and landing, four staff bedrooms, a butler’s pantry and a marble gallery, according to the broker’s listing, and Michael Gross, author of “740 Park: The Story of the World’s Richest Apartment Building.”

Speight’s unit has been on the market since August.

“You need \$50 million or \$100 million liquid money before they would even consider you,” Gross said of the building’s co-op board. “It’s an all-cash building. There are no mortgages. And you have to pass a board that’s run by a hedge fund guy.”

### ‘Liquid Money’

Real estate brokers now rely on sales to buyers outside the financial industry. Rich of Prudential Douglas Elliman recently sold a \$2.7 million condominium on TriBeCa’s Warren Street to the owner of a small insurance company and a \$4 million condo at East 74th Street to the owner of an electrical contractor, he said.

As for Patty Farmer, she’s staying in her eighth-floor apartment with views of Central Park and the pond at the park’s southern tip, gilt framed mirrors and calligraphy of inspirational quotations on the walls.

“Luckily I’m in a situation where I wanted to move,” said Farmer, who splits her time between New York City, Orange County, California, and Paris. “A lot of people are in a situation where they want out.”

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