

## Watching the 'dead cat bounce'

02/28/2009

As Manhattan's real estate market slogs through the economic downturn, brokers continue to report a slight uptick in activity from the doldrums of October, November and December. But while enterprising brokers are ushering some deals into contract, it's clear that much of the activity has failed to translate into sales.

"We have seen an uptick in traffic to open houses, but there remains a dearth of deals and an abundance of low-ball offers, anywhere from 15 to 30 percent below the asking prices," said Tom Postilio, a managing director at Core Group Marketing. "Even the low offers that come in need to be carefully vetted, as obtaining financing is still a major hurdle."

As Noah Rosenblatt, founder of the blog UrbanDigs.com and a real estate agent with Halstead Property, told *The Real Deal* in a podcast last month, the upswing in activity is temporary, more akin to a "dead cat bounce," or a false rally, than a sign that the market is turning around.

"Right now, buyers just hit a comfort zone," he said. "Deals happen on the way up, all the way up to the peak, and they happen all the way down ... That's how these things work. Certainly, I don't expect any fundamentals to reverse course and get better in the near term, I think they're actually getting worse."

In fact, market conditions mirror the start of the years-long real estate slump that hit New York City following the 1987 stock market crash, experts said.

"The mid-winter market feels pretty identical to the mid-winter market of the last housing downturn [in the] late 80s and early 90s, when the housing market index fell dramatically over a short period of time," said Luigi Rosabianca, the principal attorney at real estate law firm Rosabianca & Associates.

It's now clear to many in the industry that the recession and its accompanying job losses are not going to be resolved all that fast.

"People realize that as job losses mount, the recession will drag on," said Jeff Wolk, president of Fenwick Keats Goodstein and vice president of the Manhattan Association of Realtors.

As a result, while low prices and rock-bottom interest rates are catching buyers' interest, few seem eager to sign on the bottom line, said Paul Purcell, a co-founder of Charles Rutenberg Realty.

"Sales volume is off by as much as 75 percent, with listing inventory almost twice the level of a year ago," he said. "I see many buyers circling, but with great reluctance to pull the trigger."

In the fourth quarter of 2008, the inventory of available listings was 9,081, up from 5,133 in the fourth quarter of 2007, according to Jonathan Miller, president of appraisal firm Miller Samuel. This January, the available inventory was 10,153, compared to 7,549 in January of 2008.

Prices have dropped accordingly, much to sellers' dismay, Purcell said. "I think many sellers are in total shock and disbelief that their homes were worth X last year and are probably worth X minus 25 to 30 percent this year," he said. "It's very difficult to grasp that so much happened in such a short amount of time."

The shock still hasn't quite worn off despite several months of bad news, said Frances Katzen, a senior vice president at Prudential Douglas Elliman. "Sellers are very often taken aback by today's market conditions," Katzen said. "It is a very sobering time for sellers, who realize that they've overpaid for a unit and may never see that number return on their purchase."

In the face of these challenges, brokers are working harder than ever, and turning to creative measures to do deals.

"I advised one of my sellers to build additional closet space since the prospective buyer bidding on the property loved the apartment, but did not feel the closets were ample," said Core's Postilio.

And not all parts of the city are feeling the pain equally. Blue chip Manhattan neighborhoods, like the West Village and Tribeca, command higher prices than marginal neighborhoods like the Financial District, according to Gerard Longo, president of Manhattan Estates & Properties.

"There are dramatic differences between various locations in Downtown Manhattan," he said. "Pioneering markets are lagging behind as buyers feel more confident in areas that have historically maintained their value. The Financial District is a bit weaker because the quality-of-life infrastructure is not completed, as opposed to neighborhoods like Tribeca, which offer shopping and terrific schools."

That's especially true for rentals. Rents in prime neighborhoods haven't slipped as much as in fringe areas, and tenants are still paying brokers' fees for some very desirable apartments.

"The strongest parts of the market are still the most desirable rentals, in the best locations and at the lowest rents," said Adina Azarian, president of rental firm Adina Equities.

"People will pay for it, and people will pay broker fees for it."

According to Citi Habitats' monthly rental market report for January of 2009, rents fell in every category from the same month last year, while the percentage of rental vacancies nearly doubled from 1.34 percent last January to 2.24 percent this year.

Cost-cutting measures are now ubiquitous at firms all over the city. "We have cut staff, so a five-day worker is now a four-day worker and so forth," Wolk said. "Some jobs have been eliminated."

In fact, job cuts are now viewed as just smart business in general.

"I don't know anyone in any line of business who is not cutting back in this current economic climate," Katzen said.