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## Finding bright side of a downturn

*If recession takes hold, impact on market may take time*

By Lauren Elkies

Falling Wall Street bonuses and fears of a nationwide recession may affect demand for Manhattan homes, but local market watchdogs maintain, albeit cautiously, that Manhattan real estate is still a solid investment.

"Quite obviously, if the country goes into a recession, New York City real estate would logically be affected," said Elizabeth Stribling, president of Stribling & Associates. "That said, the perception that real estate in New York City is a better investment than placing money in the stock market continues to be a stated reason for buying for many of our customers."

Naturally, lower bonuses and record losses among some of the largest companies will temper activity, particularly among those dependent on their bonus to purchase an apartment. But bonuses still ranked the second highest since at least 1985, at \$33.2 billion or an average of \$180,420 a person, according to data from the state comptroller.

They are "still very hefty numbers," said Diane Levine, brokerage manager of the downtown office of Sotheby's International Realty. The "market in New York City is still active."

Frederick Peters, president of Warburg Realty Partnership, was more circumspect.

"We have so far not seen much change one way or another in the marketplace," Peters said. "Clearly, there has been a large injection of capital into the portfolios of many in the financial industry. There is of course some offset of apprehension about the fear of recession and the continued weakness in the national housing market. For the moment, these two forces seem to be holding one another at bay."

If the country sank into a recession, it would take time for the effects to take hold of Manhattan's residential real estate market.

"How much time would really depend on how deep the recession goes," said Gregory Heym, executive vice president and chief economist at Terra Holdings, parent company of Brown Harris Stevens and Halstead. "You have to remember that homes are not like stocks; their prices can't move as fast. The concern over the next few months will be the effect of a possible recession on buyer confidence."

And looking further out, there's unease over what bonus payouts will be next year.

On the surface, sales in December ended with a bang, but the data, the most recent available at press time, were skewed by a spike in closings in new developments fetching eyebrow-raising prices.

The number of co-op, condo and cond-op unit sales in Manhattan increased to 779 in December from 720 in November, according to research by Heym of Terra Holdings. The median sales price increased in December to \$928,378 from \$836,250 in November.

"The rise in price, and to a lesser extent, sales, can be attributed to 15 CPW, which had more closings in December than November," Heym said. "Also, there were closings at the new development 823 Park Avenue, four of which were for over \$10 million. Forty-five Park Avenue also had a lot more closings in December. So, basically I'd attribute both increases to new developments."

December saw a drop in inventory, consistent with years past. Inventory fell to 5,415 from November's 5,677, according to data from Jonathan Miller, executive vice president and director of research for Radar Logic. Sellers typically take their homes off the market in order to re-list them in the stronger spring market.

While brokers said that the sales market is chugging along with buyers who can withstand greater loan scrutiny, the rental market seems to be taking a big hit, though December data from Citi Habitats show that rents averaged \$5.25 more in December from November to \$3,219.

**\*\* "Even with less rental buildings being constructed, the lack of demand is almost unprecedented in my 35 years in the business," said Marc Lewis, COO of Century 21 NY Metro.**

"Landlords, across the board, are reporting this, and only the ones who sharpen their pencils and reduce rents, pay fees or offer other incentives are rapidly renting their units," he said.

He forewarned, "The market is returning to where it was during the recession of 2001."

Effects of the credit crisis could be more apparent in Manhattan this quarter than the third and fourth quarters of last year, since closings in the first three months of the year would likely reflect deals from the latter part of last year, following the eruption of the credit market.

In terms of current activity level, this month will be telling since generally there is a burst of contract activity at the end of February, Miller said.

"That's something to look for as an early warning sign of what's going on," he added.

#### *Residential brokers sound off*

With bonuses dropping, companies suffering record losses and fears of a recession looming, it's hard to ascertain what is going on in the real estate market. To get a handle on market conditions, *The Real Deal* recruited real estate pros last month to give their opinions on which way the market is headed.

**Rick Pretsfelder** partner, Leslie J. Garfield & Co.

While bonuses overall are down 4.7 percent, the composition of the bonuses (i.e., more stock than cash in some cases) is also an important factor. We don't expect a huge impact in the immediate term, but if there is a sense that bonuses will be down again in 2008, then the real estate market may take a hit.

**\*\* Mike Simon** president, Century 21 NY Metro

**The rental market is getting off to a slow start with a tremendous amount of inventory, some of which has been sitting around not being rented for a few months. Some owners are having trouble adjusting, and this is clogging up the market as others are reducing rents, paying fees or giving away free time as an inducement for clients to take their units.**

**Gil Neary** president, DG Neary Realty

There will be more activity, but people, as opposed to last year, will be a little more cautious about how they spend their money – looking for better value, perhaps.

**Frederick Peters** president, Warburg Realty Partnership

There is no sign and no anticipation of an increase in prices, nor does there seem to be a decline in absorption or a decrease in prices.

**Michele Kleier** president and chairman, Gumley Haft Kleier

Everybody wants a piece of New York. I don't think people who get smaller bonuses are going to move out to the suburbs. ... People with lower bonuses may be going from buying a \$9 [million] to buying a \$7 [million] apartment.

**Toni Haber** executive vice president, Prudential Douglas Elliman

Probably if you bought a year ago and you're selling now, if you include closing costs from before, you may not come out in the positive. Appreciation is not as great, unless it's 15 Central Park West.

**Lisa Lippman** senior vice president, Brown Harris Stevens

It is still a seller's market if someone bought more than two years ago. It's easier for buyers to buy now than it had been, but still there are more buyers than good inventory.

**Sha Dinour** president, Triumph Property Group

Anyone transitioning from a rental to a purchase can find good deals in comparison to a rental scenario. Anyone in need of selling a property to upgrade or downgrade for another property is experiencing a much more difficult time.

**Eddie Shapiro** CEO, Nest Seekers International

Some buyers are actually under the illusion that if they wait a little [while], prices will come down; not going to happen. ... New fed programs, including tax rebates and massive interest rate reductions should fuel confidence again.

**Klara Madlin** president, Klara Madlin Real Estate

In the last five years, people have grown to expect sales with bidding wars and double-digit appreciation. This year will return to more normal housing conditions, single-digit appreciation and a six-month turnaround on sales.

**Robin Schneiderman** vice president, Citi Habitats

New buildings or condo conversions with high common charges will be the first to slow down. People are concerned about overall costs and are looking at these charges more carefully.

*Compiled by Lauren Elkies*