

Real Estate

What's Next for New York City Real Estate?



Michael Falco for The New York Times

New York City may not follow the rest of the country into a slump, but there are signs that the market could become more tempting to buyers.

By [CHRISTINE HAUGHNEY](#)

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LOOKING back, 2007 was supposed to be the year that the [Manhattan](#) residential real estate market slowed down and began to look a bit more like the slumping national market.

But that didn't happen. While there were periods when condominiums and co-ops sat unsold because buyers and sellers couldn't agree on prices, the year ended with the average price of a Manhattan apartment rising to a record \$1.4 million, though the number ballooned in part because so many wealthy buyers purchased extraordinarily expensive condos.

No one is predicting that 2008 will be a repeat of 2007. The sprawling pieds-à-terre may still sell for millions at [the Plaza](#) and 15 Central Park West, but in general, economists are predicting that prices will drop in some segments of the market and in some neighborhoods around the city.

"New York has had a very good run, and there are still a lot of people sitting around with cash," said Christopher Mayer, the Paul Milstein professor of real estate at Columbia Business School. "But that doesn't last forever."

There are already signs of a more sober market ahead: Wall Street workers may face leaner bonuses this year and in years to come, borrowers may have a harder time getting mortgages and foreign buyers may reconsider the potential returns of investing in New York.

Mr. Mayer said that a national recession could weaken Manhattan prices even further because fewer workers could afford to buy in the borough.

Diane M. Ramirez, president of Halstead Property, is less concerned about a recession because the inventory of property on the market is currently low. She said that in the recession of the late '80s, Manhattan dropped sharply because the city had an oversupply of apartments. "We had a deeper, longer recession than most cities," she said. "We lost 20 to 50 percent value."

When trying to gauge the real estate market — or, for that matter, the city's economic outlook — the first stop is always Wall Street.

Wall Street jobs make up 5 percent of the total jobs in [New York City](#) but 23 percent of the city's total wages, according to data tracked by the New York State Department of Labor. Annual bonuses are also tracked by real estate brokers with a fanatical devotion.

History shows that a great deal of the bonus money is used to buy real estate. Financial workers are typically the first buyers to show up with the cash in the spring buying market, and this helps shape demand for apartments.

"That energy of the bonus money really does get the spring market percolating," Ms. Ramirez said. "The bonus tends to be the starting gate for them."

While it may seem counterintuitive, considering how much havoc the subprime crisis has brought to the financial industry, one analyst is predicting that 2007 bonuses, which workers will receive over the next couple of months, will be about the same as last year's record bonus year for some bankers.

These workers are compensated based on their performance for the whole year, and most banks did well leading up to the credit crisis last summer. So, while workers may not earn more than they did in 2006, they could still have plenty of money to put toward real estate.

Alan Johnson, the managing director of Johnson Associates, a firm that tracks compensation data, said that over all, bonuses should remain flat for a broad spectrum of the financial industry. "This year was a pretty good year for bonuses, roughly on par with 2006, some of them less, some of them more," he said.

But, he said, that won't necessarily be true a year from now, and this knowledge could keep traders and investment bankers from splurging on real estate this year as they have in past years.

"Everybody sees the storm clouds on the horizon," because Wall Street firms have already had write-downs of more than \$100 billion from their mortgage-backed securities businesses, Mr. Johnson said. "If you're going to commit to some big purchase, it makes you pause. Your pay may go down."

He predicts that by the end of 2008 employees at the top will be hurt the most: those whose total compensation of salaries and bonuses is more than \$1 million could see cuts by 40 to 50 percent; those in the \$500,000 to \$1

million range could see cuts of about 20 percent; and those with pay of less than \$500,000 could see 10 percent cuts.

Shai Shustik, the president of the brokerage firm Manhattan Residential Inc., which has many clients who work on Wall Street, says they are proceeding with more caution. “I don’t think people are as gung-ho and anxious to get out there and spend everything they made, like they did in 2007,” he said. “People aren’t going to stretch as much.” In the past, “the guys who tell you they’re spending \$2 million spend \$2.4 million or \$2.6 million,” he said. “Now, they want to stick to \$2 million.”

Many of these Wall Street employees might also find that their bonuses are being paid less in cash and more in stock.

Melissa Cohn, the president of the Manhattan Mortgage Company, said that one banker who had negotiated the contract on a \$9 million town house had to pull out of the deal because he found out he would receive only \$750,000 in cash from his total bonus. The remainder would take other forms, like stock, meaning that he would have less to spend in the near term on real estate. “He’s gone from the \$9 million to \$10 million range to the \$5 million to \$6 million range,” she said. “Everyone in general is being more conservative.”

Moving beyond bonuses, the fallout from the mortgage crisis is likely to touch a broad swath of the real estate market. Qualifying for mortgages, for instance, may be more problematic this year for buyers in all price ranges. The mortgage crisis, which was set off by defaulting subprime loans last summer, has forced lenders to tighten their standards across the board in both Manhattan and the boroughs.

Richard Barenblatt, a mortgage broker with the Apple Mortgage Corporation, advises his clients to prepare themselves for far stricter mortgage requirements than they would have faced six months ago.

For starters, lenders expect borrowers to make higher down payments for co-ops and condos. He said that before the broad defaults on subprime mortgages forced banks this past summer to tighten standards, buyers with good credit applying for full-income verification loans could qualify for mortgages worth 95 percent of the purchase price up to \$1 million. Now these same buyers qualify for mortgages valued at only 90 percent of the price up to \$1 million.

Some lenders are also requiring borrowers to have more money in reserve; for example, borrowers applying for jumbo mortgages — those surpassing \$417,000 — may need to show that they have the equivalent of up to 12 months of mortgage payments in cash after closing.

Mr. Barenblatt encourages buyers to pay down credit card balances below 40 percent of their total combined credit card limits; for buyers with debt levels above that, he said, banks are less likely to approve mortgages.

He also thinks buyers should talk to their lawyers about getting mortgage and appraisal contingencies written into their contracts. A contingency is a clause that allows a buyer to back out of a deal if he or she can’t find a mortgage, if the lender changes the terms of the mortgage before closing or if an appraisal comes in unexpectedly

low. In the past, sellers in Manhattan have often balked at contingencies, because there was usually another buyer waiting in the wings willing to buy without one. Mr. Barenblatt also encourages buyers to try to get preapproved for mortgages.

Condo buyers might find extra scrutiny when visiting the mortgage broker because lenders have seen too many cities around the country where new condos are sitting vacant or unfinished.

Some major lenders in New York have stopped giving mortgages at condo projects where the developer has not sold 90 percent of the units. These banks are imposing even stricter standards than those Fannie Mae and Freddie Mac are putting into effect on March 1 for mortgages below \$417,000, according to Brad German, a spokesman for Freddie Mac. The threshold for the two government lenders: 51 percent of units must be sold.

“We changed our guidelines in response to shifts in the real estate market, including oversupplies in [Florida](#), Las Vegas, [Arizona](#) and other condo markets outside of New York City,” he wrote in an e-mail message. “Our mortgage purchase guidelines are national in scope.”

These national guidelines are making it more difficult for condo buyers in Manhattan. Foreign buyers and financial industry employees have paid top dollar for these new apartments in the last year precisely because they required less money down and had more flexible requirements than co-ops.

Ms. Cohn of Manhattan Mortgage tells of clients who have had mortgage applications rejected by some banks because the building where they wanted to buy was not 90 percent sold out. “There has been an apocalyptic change in the lending market,” she said. “Banks that were market leaders have eliminated numbers of programs and products and have made sweeping changes.”

Foreign buyers, who have made about a third of the condo purchases in the last 18 months, have done so because they see it as a wise investment considering the weakness of the dollar, said Mr. Mayer of Columbia Business School. But, he added, even foreign buyers will walk away from deals if they don’t think Manhattan prices will remain strong or if they cannot expect high returns on their investments.

“They don’t need to buy real estate to make a bet on the dollar,” he said.

All of these situations could create a window of opportunity for buyers. In fact, certain market segments have already started to show signs of slowing.

Sofia Kim, who is the head of research for [StreetEasy.com](#), said that out of the 24,000 apartments listed by the site at some point in 2007, about 20 percent, or 4,800, had cut prices, by an average of 8 percent.

Most sellers who cut their prices were offering one- and two-bedroom co-ops, Ms. Kim said. These price cuts were concentrated on the Upper East Side and in Chelsea, Greenwich Village and Midtown. In the coming year, she expects that sellers may continue to cut their prices if sales are slow.

Prices in Inwood and Hudson Heights, in the northern reaches of Manhattan, had dropped about 5 percent by the end of last year, according to fourth-quarter data released by Halstead Property.

Data from the Corcoran Group, tracking sales in [Brooklyn](#) in the fourth quarter of 2007, show that prices on certain types of apartments in coveted neighborhoods like Park Slope and Fort Greene had dropped slightly.

Some neighborhoods like Williamsburg and Greenpoint have had 15 percent price drops from their peak in the summer of 2005, and sellers are negotiating deals, said David Maundrell, the president of [Aptsandlofts.com](#), a Williamsburg brokerage.

Brooklyn buyers, he said, have been especially fortunate in negotiating deals on new condos. Developers of new condos with fewer than 10 units have agreed to pay closing costs for buyers, while developers of larger projects have been willing to negotiate on price. "Most of my guys in the larger buildings will consider any offer," Mr. Maundrell said.

Prices in New York City are not expected to be significantly affected by foreclosures this year, as the number of foreclosures in the city's outlying neighborhoods is rising, but still low. Fourth-quarter data tracked by [PropertyShark.com](#) show that there were 605 foreclosures throughout New York City in the fourth quarter of 2007, a 71 percent increase over the 354 foreclosures in the same period in 2006.

But that is in a city of three million households and represents only 0.02 percent of New York City inventory. That's far less than in [Miami](#), which has a 0.25 percent foreclosure rate, and [Los Angeles](#), which has a 0.21 percent foreclosure rate.

Ryan Slack, the chief executive of PropertyShark, said that the New York numbers may rise steadily through 2008, but they will still represent only a tiny share of the overall market. "They're not that high a percentage of the inventory," he said. "If you're selling into the market, you're going to be more affected by the dynamics of buyers and sellers than foreclosures."

The rental market, which has been exceptionally tight for the last few years, is also showing some signs of loosening up. Marc Lewis, the chief operating officer of rentals and investment sales at Century 21 Fine Homes and Estates, says that the rental market slowed in the middle of September and has not picked up since.

The December survey of 10,000 apartments tracked by the Real Estate Group New York shows that the rental market fell from the previous month, especially on the Upper West and East Sides, and in Midtown East, Gramercy Park and SoHo. Some declines were striking; rent in studios in doorman buildings in the financial district, for example, dropped by \$503, to \$2,559 a month.

Mr. Lewis said there were fewer new hires relocating to Manhattan for jobs and paying high rents. He said that landlords were much more willing to pay commissions, offer a free month's rent or both. And, he said, they're much more willing to negotiate on apartments that rent for more than \$2,000.

“If they have an apartment that’s empty for a week or two or a month, they’ll entertain an offer,” Mr. Lewis said. “It’s definitely going to continue for the next three, four or five months.”

In the end, economists and real estate brokers say they don’t expect Manhattan to suffer as severe a housing slump as the rest of the nation because there hasn’t been as much overbuilding.

That’s because banks stopped lending to developers to build more condos and developers turned nearly a third of the sites into other uses like hotels, offices and rental buildings, said Robert Knakal, the chairman of the commercial real estate brokerage Massey Knakal Realty Services Inc., based on what he saw from the projects that his company had marketed.

In addition, more of the condos that were built were snapped up by more Wall Street bankers and foreign buyers than some real estate industry experts had originally expected.

“What this means for the consumer is that there will be product available for them to look at, but not a significant oversupply,” Mr. Knakal wrote in an e-mail message. He added, “Buyers who are on the sidelines waiting for prices to drop significantly before buying may be there for a long time.”