New York is cool again as city gets back to 'normal'

BY LINDA BARR

What happens in Vegas, stays in Vegas, say Manhattan's real estate experts who believe that New York City's residential markets will meet a far different fate than fellow residential boomer Sin City, whose condo market most agree is more overheated than asphalt on The Strip at high noon.

Reports for the fourth quarter of 2005 indicated that the number of condo and coop sales in New York City dropped sharply. An up tick in mortgage rates and mixed economic news were blamed for causing what some referred to as a "pause" in transaction activity.

But don't push the panic button just yet. In Las Vegas, whose housing market has experienced a dizzying level of appreciation, several high profile condo projects haven't just sputtered, they've flat out tanked.

JONATHAN MILLER

According to Jim Mazzeo, owner of Weichert Realtors Mazzeo Agency, New York gives much less cause for concern.

"There's definitely a slowdown across the board in suburban markets," said Mazzeo. "But although the market pace has slowed and many buyers [in Manhattan] are taking a wait-and-see approach, there is still a shortage of inventory in the market, and that is preventing any major price reductions. The market trend is toward a market rise in balance to a more equal supply and demand."

That's where Las Vegas develop-

Continued on Page 8R

New York is cool again as

Continued from Page 1R

ers may have bloodied their noses, according to Jonathan Miller, president of Miller Samuel Inc., the New York-based real estate appraisers, who said that the supply there began to dwarf demand just as cost overruns began to hit developers.

The combination between a market whose prices Miller speculates are beginning to moderate and whose cost of construction is rising are what he believes contributed to Related's highly publicized decision to scrap plans to develop its high rise, 514 unit, Icon Tower.

The rampant speculation in the Las Vegas market could be its downfall, Miller indicated. "When their projects were cancelled and they got their deposits back, the [Las Vegas] purchasers were more upset about losing the opportunity to flip than anything else," he said.

New York's transactional activity on the other hand isn't driven nearly as much by investors who have plans to the flip their buys soon after.

According to Miller Samuel's data on the level of flipping in New York, only 4% of transactions sold again within 18 months far below the nation's average of 23%.

"One of the primary reasons we don't have a speculative market or high concentration of investors in New York is that 80% of our housing stock is coop," said Miller, indicating that co-op boards, whose approval is necessary for the sale of one of its co-op units, tend to impede the investor agenda for flipping property. "Secondly, the price point here is much higher. The median sale price for the fourth quarter was $760,000 while nationally that figure is just under $220,000.

"In this market, you don't have carpenters and nurses quitting their jobs to sell real estate like you have in other markets. In a strange twist, the high pricing levels here somewhat insulate us from speculative investment."

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Shaun Osher, chief executive officer of CORE Group marketing, agrees and believes that the construction costs that have put a serious dent in the profitability of some Las Vegas condo projects should sidestep the Manhattan market.

Construction costs have spiked 20% in the past nine months as a result of shortages of both labor and materials and an increase in the price of oil but "in New York, a lot of the projects are conversions, so you already have the bricks and mortar," said Osher, whose company is about to bring two developments to market on 73rd and 17th Streets in Manhattan.

According to Andrew Heiberger, CEO and founder of Buttonwood Real Estate LLC, the hike in construction costs will impact on the city's rental market however.

"The fact that construction costs are so astronomical makes it extremely difficult to build any new rental buildings. I believe that rental prices are poised to rise 15-20% ove[r] the next 18-24 months. With the

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rental market maintaining a less than 1% vacancy rate, high construction costs are only adding fuel to fire."

Heiberger sees the hike in construction costs helping the city's sales market.

"It will prevent a lot of projects coming to the market and stop it from being oversupplied," he said.

Jonathan Miller warns that such an oversupply in the city's housing inventory could hit price levels.

"From a historical perspective, the number of units coming on line is not a concern but, if mortgage rates rise and demand cools, some of this product is not going to be absorbed in an expeditious manner and I think that's already partially responsible for the moderating price levels here in New York," Miller said.

But while inventory here has risen 52.1% in the last year, it's still nowhere near the oversaturation of the 1980s.

"A lot of new product is coming on the market, but we have had such a shortage in the past that this increase is going to keep the market in balance," Mazzeo said. "If it wasn't coming, we'd have another spike in prices."

While early indications point to mortgage rates remaining steady as a result of a slippery economy keeping inflation in check, the city's brokers, owners and developers appear to be cautiously optimistic about the coming year, already reporting a busy start to January.

Jacky Teplizky, executive vice president at prudential Douglas Elliman, staged 10 busy open houses last weekend. "Buyers are definitely back," said Teplizky, "but they are cautious. They are really doing their homework and, when they perceive good value they will go for it.

"But the price has to be right – over price by a little and you don't get anything. It's almost like shooting at a target – you have to be right on the bullseye."

Miller Samuel appraised six sales in excess of $20 million each in the first weeks of the New Year, a byproduct of the healthy Wall Street bonuses that are starting to filter their way through the real estate economy in New York.

The residual effect of that bonus money is expected to cause the first half of the year to see more transaction activity and more appreciation than in the second half of the year.

It's also anticipated that buyers will continue to ponder their choices in the early months of the New Year, allowing the market to stabilize further.

ANDREW HEIBERGER

Hieberger – whose firm is about to complete designs for its Sundari development on 32nd and Madison and is planning a condo development on Greenwich Street downtown — predicts the studio and one-bedroom market will fair well in 2006 as a result of the skyrocketing rental market producing more buyers for the product.

He agrees, pricing will be key to the market's direction. "If you are within [the correct] price points and have a good product, I think you're safe as a developer, broker or owner. If you want to defy the laws of gravity, then caveat venditor – let the seller beware."

Teplizky says there are both buyers and sellers out there still wondering if the market will drop further.

Her advice to them: "The wait and see attitude in New York City never proved itself in the past. If you need a home, you buy a home.

"This is not a market for the short term investor but for those who are buying a primary home or investing for the long term."

Following the uncertainty of the fall market when people were in a wait and see mode, Teplizky says she believes folks are ready to buy. "They were in wait and see mode. Now it's a new year — by now, even the buyers are fed up waiting."