

THE REAL DEAL

NEW YORK REAL ESTATE NEWS

Prices plummet dramatically

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December brought proof that real estate prices are plummeting dramatically as New York City anticipates months of recession and job losses ahead.

According to the Federal Reserve Board's "Beige Book," which came out in December, prices of Manhattan co-ops and condos are reported to have fallen by 15 to 20 percent since mid-summer, confirming months of anecdotal evidence that sales prices had plunged.

Meanwhile, the discounts buyers expect are even larger, according to Paul Purcell, cofounder of Charles Rutenberg Realty.

"Buyers are looking for, in some cases, 30 to 40 percent off of what the price would have been a year ago for an apartment," he said. "They want real estate to mirror the loss in the Dow."

Sales volume, meanwhile, has continued to slow.

"The sales market is off tremendously compared to past years," Purcell said. "I would say overall in New York City, it has to be off by 75 to 80 percent." He also estimated that the number of rental transactions has fallen by 40 percent.

And, in another crushing blow to residential real estate, Fannie Mae informed the banking industry in December that it would raise the nationwide presale requirements for new co-op and condo buildings to 70 percent starting March 1, *The Real Deal* reported late last month.

The new 70 percent presale requirement is much higher than the current 51 percent, which will make it even more difficult for buyers to get mortgages, and spell certain doom for some new developments that have recently begun sales.

The move would "utterly destroy [the] New York [real estate market], and Brooklyn, for that matter, in the next six months," said Ross Weinstein, a managing partner at Union Square Mortgage Group.

In the face of these obstacles, pricing has taken on new significance, becoming the single most important factor in real estate transactions.

"Buyers are no longer willing to agree to the prices developers or sellers are asking," said Frances Katzen, a senior vice president at Prudential Douglas Elliman.

Purcell said even with properties that have reduced prices, they want to negotiate further. "They want to know they have hedged the price against future price declines," he said.

As a result, it's become crucially important for brokers to price properties according to what will sell.

"Some sellers still maintain their 'wish prices,' and some buyers think they can lowball anything," said Barak Dunayer, president of Barak Realty. "These gaps in expectations are now what brokers are paid to bridge, while before, brokers got paid for simply opening the door."

Max Dobens, an associate broker at Prudential Douglas Elliman, has termed his strategy "holy crap pricing."

"We are pricing apartments now where we expect them to be in February," he said. "The buyer then walks into the apartment and says, 'Holy crap, that's a great price,' and hopefully, they make an offer."

Buyers' perceptions that they're getting a deal is often more important than the price itself, said Dunayer, who recently listed a two-bedroom penthouse in Trump Place at 120 Riverside Boulevard for \$995,000.

"We expect a deal to reach \$1.6 to \$1.7 million through multiple bids," he said. "There are already dozens of people calling during the first two days, and there is no way we would have gotten nearly as much traffic had we listed it closer to the actual market price."

Brokers said they're seeing a slight uptick in interest from potential buyers now that the initial shock of the Wall Street meltdown has worn off, but contract signings are virtually nonexistent.

"Every one of my buyers is on a 'wait and see' basis," said Ray Asis, an associate broker at City Connections Realty. "Those who actually view apartments in person respond by saying, 'I really like it, but let's wait and see what the market will be like in the next month or so.'"

With transactions so few and far between, inventory of available listings continued to grow steadily, jumping 4.4 percent from 9,494 in October to 9,916 in November, a 37 percent leap over the number of listings in November 2007, according to Jonathan Miller, the president of appraisal firm Miller Samuel.

In the face of the sales slowdown, many brokers are focusing on rentals, one area of the market that continued to show some activity as sales slow.

"Our rental business has been extremely busy," said Michael Signet, director of sales at Bond New York. "Tenants are either downsizing, or taking advantage of falling rental prices and upgrading. Either way, it translates into a lot of rental transactions."

Rents, however, have fallen a great deal. "Rents have gone down," said Adina Azarian, CEO of Adina Equities, "as much as 20 percent from last year, in some listings."

Rental vacancy continued its upward trend to 2.04 percent in November from 1.71 in October, according to Citi Habitats, while average rents fell from last month — in every category.

Here's a sample of what real estate professionals had to say about market conditions in response to *The Real Deal's* monthly Manhattan residential survey.

"Business in December is better than November. I think January may be better than we think." **Deanna Kory**, senior vice president and head of the Deanna Kory Team at the Corcoran Group

"I think the biggest change ... is that those people that are still in the market and still actively viewing homes are very serious, while we see very few window shoppers." **Jeffrey Carlson**, director of leasing, Platinum Properties

"Everyone is waiting for the prices to reset and people to get back in the game. But for now, enjoy your holidays, volunteer, be grateful for what you have (hopefully some money is left over from deals you did in the good old days) — and tell your sellers the bad news sooner rather than later." **Gil Neary**, president, DG Neary Realty

"The word on the street is that people are actually out there looking for a great deal. It's the best time to buy in 25 years. Prices are lower, selection is higher, interest rates are lower." **John Reinhardt**, president and CEO, Fillmore Real Estate

"There are so many buyers waiting and waiting. This demand has been building up since September. We expect first quarter '09 to be busy and very telling." **Darren Sukenik**, executive vice president, Prudential Douglas Elliman.