Residential market ending the year on hopeful note

A year that began in the deep freeze ends not with rebounding prices, heaven forbid, but with apartment buyers seizing bargains.

Frank Didik

The Manhattan House is one condo conversion reflecting the topsy-turvy year.

To say the very least, this has been a tumultuous year for New York's residential real estate market.

During the first half of 2009, activity was frozen—transaction numbers plummeted by as much as 51%, and prices sunk by as much as 25%. But when summer arrived there was an uncanny pick-up in activity, and as the year comes to a close the market isn't looking nearly as bleak.

Brokerages are scheduled to release fourth-quarter and full-year reports next week, but “it's clear that 2009 will be remembered as one of the weakest markets in decades,” according to one full-year report that tracks contracts signed in Manhattan, which was released earlier this month by brokerage CORE.

“It was a difficult year,” said Diane Ramirez, president of Halstead. “We had the doom and gloom, but everyday we put one foot forward and got through it.”

The year can be characterized by three distinct cycles, according to Jacky Teplitzky, a managing director at Prudential Douglas Elliman. From January to May there was a halt, as “everything stopped, and no one wanted to get into the market,” she said. Then from June to September buyers started coming out to open houses and making offers on apartments. Finally, from September onward contracts were getting signed because sellers were finally adjusting prices, Ms. Teplitzky explained.

“A second major dip has not occurred. We have been busy,” says Kathy Braddock, co-founder of Charles Rutenberg Realty. “The question is what will happen next year.”

Inventory in Manhattan hit its highest level in a decade, soaring to 10,445 units, during the first quarter of this year, according to Jonathan Miller, chief executive of appraisal firm Miller Samuel Inc. And that figure did not include the units that developers don't actively market, units known as shadow inventory. He estimated those add another 7,000 units in Manhattan alone.

New developments continued to struggle to sell units throughout the year as buyers were not able to get mortgages. Fannie Mae and Freddie Mac tightened their lending requirements, refusing to purchase loans in buildings that have not pre-sold 70% of the units in the entire project. That new rule forced developers to turn to other programs, like the Federal Home Administration loan insurance program, so that apartment buyers could put down as little as 3.5% and still qualify for a mortgage when purchasing a home.

Many developers in New York City never even considered seeking FHA approval on their projects until this year, according to industry experts. For new developments in emerging neighborhoods, such as Harlem and Williamsburg, Brooklyn, which were hit the hardest by the downturn, the program has become critical to sales.

“In 2009 it was the first time in a long while that getting a mortgage changed from being constant in the home buying equation to a wild card,” Mr. Miller said.

The year was also marked by a number of high-profile failed conversion projects, which have either been foreclosed upon or are in the process of it. Many of these were acquired at the height of the market. Among them are Kent Swig's 597-unit Sheffield57 and Yair Levy's 303-unit 225 Rector Place in Battery Park City.

One condo conversion that reflects the topsy-turvy year is the $1.1 billion conversion of the 575-unit Manhattan House on the Upper East Side. After three years of disputes among the owners, the building started sales just when the market began to slide. And after the Lehman Brothers' collapse in late 2008, sales stopped and buyers who had signed contracts got out of them. This summer O'Connor Capital, the developer of the building, slashed prices of units by 20%. In June, Corcoran Sunshine Marketing Group, which took over sales at the complex earlier this year, said there was increased interest in the complex and contracts were being signed once again. So far, according to StreetEasy.com, there have been 101 recorded sales at the building.

“When those projects were acquired, there was a disconnect between what the asset was worth and the relatively low cost of credit,” Mr. Miller said. “In 2009, there has been a massive reset where people now understand risk and value.”