Thoughts & Predicitions from Industry Pros

Looking Back, Looking Ahead

By Lisa Iannucci

For pretty much every business sector you can think of, 2009 was a roller coaster of a year—and real estate was particularly hard-hit. Some industry professionals have weathered the storm, while others have packed up and moved on from the uncertainty of this tumultuous industry to seek better fortunes elsewhere. Now, as the year draws to a welcome close, it may be a good time for not just evaluating 2009, but postulating what 2010 might have in store. So we asked a handful of New York real estate professionals to reflect back on this past year and see if they can look into their crystal ball to forecast next year's trends and challenges.

A Big Rough Patch

Paul Purcell, co-founder of Charles Rutenberg Realty in Manhattan, frankly admits that from December 2008 through March of 2009, "I didn't want to get out of bed. We had no market, no volume and no deals being done. We were off about 80 percent of our business. The day Lehman Brothers [went under] was called the 'day of death' around here—it was like the faucet got turned off."

Purcell explains that fearful buyers were pulling back—even if it meant forfeiting down payments and fees for properties in contract.

"Even when you knew cooler heads should prevail, it was a frightening time for all of us," he continues. "It wasn't until late spring and early summer—right after Memorial Day—that the industry started to turn back on again. [Buyers] had been waiting on the sidelines, looking for prices to be attractive. Combine that with incredible interest rates, and these people decided they were going to go for it. These are just anecdotal reports, but the feel on the street seems to be that there's a renewed confidence now."

Raffi Arslanian, a principal with New Jersey-based RSA Development Group LLC, saw 2009 as the eye of the economic storm—and says that the full effects still haven't been felt in the area.

"New York City is not immune to market conditions," he says. "Buyers are seeing greater drops in price in New Jersey, and consequently their appetite for looking there has sharpened. First-timers and much younger, less affluent buyers are making their way to the suburbs because New York City is still beyond their reach, regardless of the extent of price reduction."

In addition, Arslanian says that despite the economic shake-up, it's not the super-affluent who will feel the burn in the real estate market so much as the everyday homeowner or buyer.

"As always, the [most affluent] groups that are insulated from this economy are not affected," says Arslanian, "but the heavily-leveraged groups are, and they will continue to be in trouble. It's sad to see that the TARP [Troubled Asset Relief Program] money extended by the federal government has been funneled to institutions without any directive to its use, instead of refinancing the individuals and families in need. There are no real mechanisms to relieve the common homeowner, so more and more will surely go into foreclosure and the trend will continue throughout 2010. On the other hand, I do suspect that the end of 2010 will start to show some resolution."

A Slow Comeback?

“We started the year with a lot of inventory and price corrections,” says Jacky Teplitzky, managing director of Prudential Douglas Elliman. “Very few transactions happened in the spring—but the summer surprised all of us.

Buyers came to the market and bought. Sellers who couldn’t get their prices either took their apartments off the market or rented them out, so inventory started to go down. September till now saw additional activity and even bidding wars—it was like a voice from the past!”

Sandra M. Radna of the Manhattan- and Smithtown-based law firm Radna & Androsiglio, LLP agrees that things may be creeping back toward normalcy—though it will take time, and “normal” is a relative term when talking about New York City real estate.

“I think that the 2010 co-op and condo markets will have a slower comeback than the housing market because of the decreased reserves held by co-op and condo boards for repairs,” says Radna. “[Less reserve funding] may cause maintenance fees for these buildings to remain high—even if the cost of the residence itself has decreased.”

Ed Schor, a broker with Apartment Buyers Alternative in Manhattan says that the recession has made sellers more realistic in their pricing. “More than one-third of sellers in the third quarter [of 2009] cut their asking price, but this was less than the number who cut asking prices last year. It indicates that some modicum of realistic expectations has settled in,” he says. “If realism reigns on both sides of the transaction, deals will happen. So, I think maybe we’re out of free-fall and into a good time to buy, if not to sell.”

For her part, Radna isn't so sure the market has quite bottomed out yet. “I hope that we've seen the bottom of the recessionary downswing,” she says, “but it may get worse again before there is a complete recovery.”

Radna also suspects that the hot neighborhoods and communities in 2010 will be simpler, smaller, more affordable homes near areas where work is more readily available. “I think homeowners are thinking 'practical' instead of 'glitzy',” she says. “The fancy neighborhoods far from business areas with long commutes will make less sense for those trying to stretch every penny.”

Neighborhoods to Watch

It's long been a real estate truism that in tough times, it's the oldest, most established neighborhoods that hold their value best, and the fringey, up-and-coming or not-quite-gentrified areas that are likely to backslide the most in terms of value and desirability.

Teplitzky feels this will likely be the pattern as the market attempts to right itself in the coming year. “We're back to more traditional established neighborhoods,” she says, “The Upper East Side, Upper West Side, Gramercy and Park Avenue South. Harlem will continue being hurt, because it went up too fast. Long Island City might suffer; if people can get the same apartment for the same price in Manhattan, they will bypass LIC and head for the city.”

Schor agrees, saying he sees some markets struggling to reclaim the kind of growth that characterized the pre-recession years. Neighborhoods like Red Hook, Fort Greene, Greenpoint, Long Island City, and Williamsburg may take longer to bounce back from stalled development and slow sales. “Far West Manhattan will resume its growth, but at slower pace—and the Upper East Side, Upper West Side, Tribeca, Midtown East & West will hold their own,” he says. “I’m not certain about the Financial District.”

Alon Chadad, vice president of Manhattan-based brokerage firm NestSeekers International concurs that “the Brooklyn waterfront will take some time to get back,” but disagrees with other pros' concerns about Long Island City. “I think Long Island City is not producing enough housing fast enough,” says Chadad. “We are selling everything over there and running out of inventory. Long Island City will continue to thrive. The Upper West Side will continue to expand and take more and more families from the entire city and the West will be the new East. I think that the Financial District will take another year or two to clean up the mess of failed projects and clean inventory. Otherwise, the rest of the city will continue to thrive."

Looking Forward, Branching Out

And how the city and industry manage to thrive may have more and more to do with fundamentals, like customer service, and adapting to a changed landscape. Margie Russell, executive director of the New York Association of Realty Managers (NYARM) sums up her year-end assessment of 2009 this way. "The economic conditions have been a wake-up call to all who serve building clients," she says. "Every person and every company must know that nothing is guaranteed, no gravy train exists, and all should consider everyday an opportunity to justify their earned income."

As for what she sees happening as the real estate industry continues to feel its way toward better days, "I predict we will see a huge upsurge of English-as-second-language trainings in our industry. Why? Because of the new, more stringent federal EPA lead paint laws that take effect in April 2010, building service workers and contractor's workers must pass a written test prior to receiving their certification. This test is only given in English and Spanish.

"This means a big change in the skill set that is required for the entry level building worker," Russell continues. "If a written test is required to perform lead-safe work practices and that test can't be successfully completed, then the building service worker—by law—can't fulfill that particular task. [Building administrators] will then have to make a decision as to how they will enforce a literacy requirement," Russell says.

A Saner, More Stable 2010

Again and again, the professionals interviewed for this article heralded the return of stability and rationality to what had been in recent years a market-gone-wild.

Chadad also says that the spiraling price increases and breakneck pace of new development around the city in the past five years was getting out of control. “It stopped making sense,” he explains. “A person would buy a property and then put it back on the market a year later for double the price. The recession in a sense has acted as a correction to that out-of-control atmosphere.”

Teplitzky is also cautiously optimistic. “In my opinion, 2010 will bring pricing stabilization,” she says, “and might even bring price increases if the inventory levels continue to decrease. I'm wishing for stabilization and for the roller coaster ride in the financial world to come to an end. Also on my wish list: no more corporate bankruptcies; lower unemployment numbers, and no major bad events—tsunamis, earthquakes, hurricanes. Basically, a peaceful, uneventful year!”

Going forward, Purcell says he would also like to see “moderate and steady growth, instead of a wild ride. We seemed to have gotten confused with what real estate is. It’s not a liquid [asset]—it’s a home. We got tied up into this exponential growth and trying to make money from it, and that's simply not the way it should be viewed. You must be able to afford your home and weather things in good and bad.”

For his part, Arslanian says, “I would like to see a degree of consolidation in municipal services to relieve the enormous tax burden to our homeowners. Tax incentives are gimmicky and perishable. We need to live more vertically. I would like to see an even principle of life applied across the board with less room for corruption or manipulation. Financially, the markets are finding their level—and they should be left alone without grand interventions.”

In this new era, Schor says, “Things may not be as good as before the economic debacle, but as a relative matter, reason should prevail and value find its way back into the market.”

Lisa Iannucci is a freelance writer, author and a frequent contributor toThe Cooperator.