

New York Quarterly Real Estate Newsletter

Manhattan Q1 2015

The key takeaways from the [Manhattan Q1 2015 Corcoran sales report](#)*:

- **Number of Sales increases:** the beginning of the year typically sets the one for the Manhattan market and this quarter the results were positive. Q1 2015 exhibited the highest number of sales for any first quarter in over 6 years. Closed sales increased 12% versus Q1 2014, after two consecutive quarters of y-o-y decline.
- **Inventory's steady decline continues:** 1% fewer listings than a year ago and days on the market dropped 6%. The Manhattan market is notably under-supplied. At the rate of sales over the past year, the number of currently listed apartments in Manhattan is equivalent to just 3.8 months of supply. Well below the 6-9 months equilibrium. Buyer's competition, especially for lower priced units, is significant.
- **Level of Prices increases:** Median and average price climbed market wide, with median price up 6% y-o-y and average price per square foot up 5%. The median price of studio, one and two bedroom apartments all increased compared to last years; however, three bedroom and larger residences

Brooklyn Q1 2015

The key takeaways from the [Brooklyn Q1 2015 Corcoran sales report](#)*:

- **Sales Down but Contracts Signed Up:** number of sales decreased by 5% y-o-y and 8% from last quarter while the reported number of contracts signed increase 19% y-o-y. Since closings lag behind contract activity by eight to twelve weeks, we have yet to see the effect on increased inventory in terms of closed sales.
- **A much-needed increase in listings:** Apartment inventory grew 19% y-o-y to total 1,946 listings. Inventory has been increasing y-o-y for three consecutive quarters after nearly a three-year run of annual inventory declines. Q1 2015 condo listings claimed 45% of inventory but their market share is still well below the levels seen prior to 2010. The borough is still experiencing an under-supplied market at 5.3 months of supply, and an average of 64 days of a listing coming to market, a 17% decrease from a year ago.
- **Level of Prices increases:** The combination of strong demand and low inventory continued to fuel price gains in the borough. Over the past 12 months, the median price leapt 25% to \$550K, the second highest market wide median price seen in six years. However, this was versus a low Q1 2014 figure skewed lower by a number of sales under \$350K. Q1 2015 had six-year record high median and average price per square foot, both just under \$800/sf.

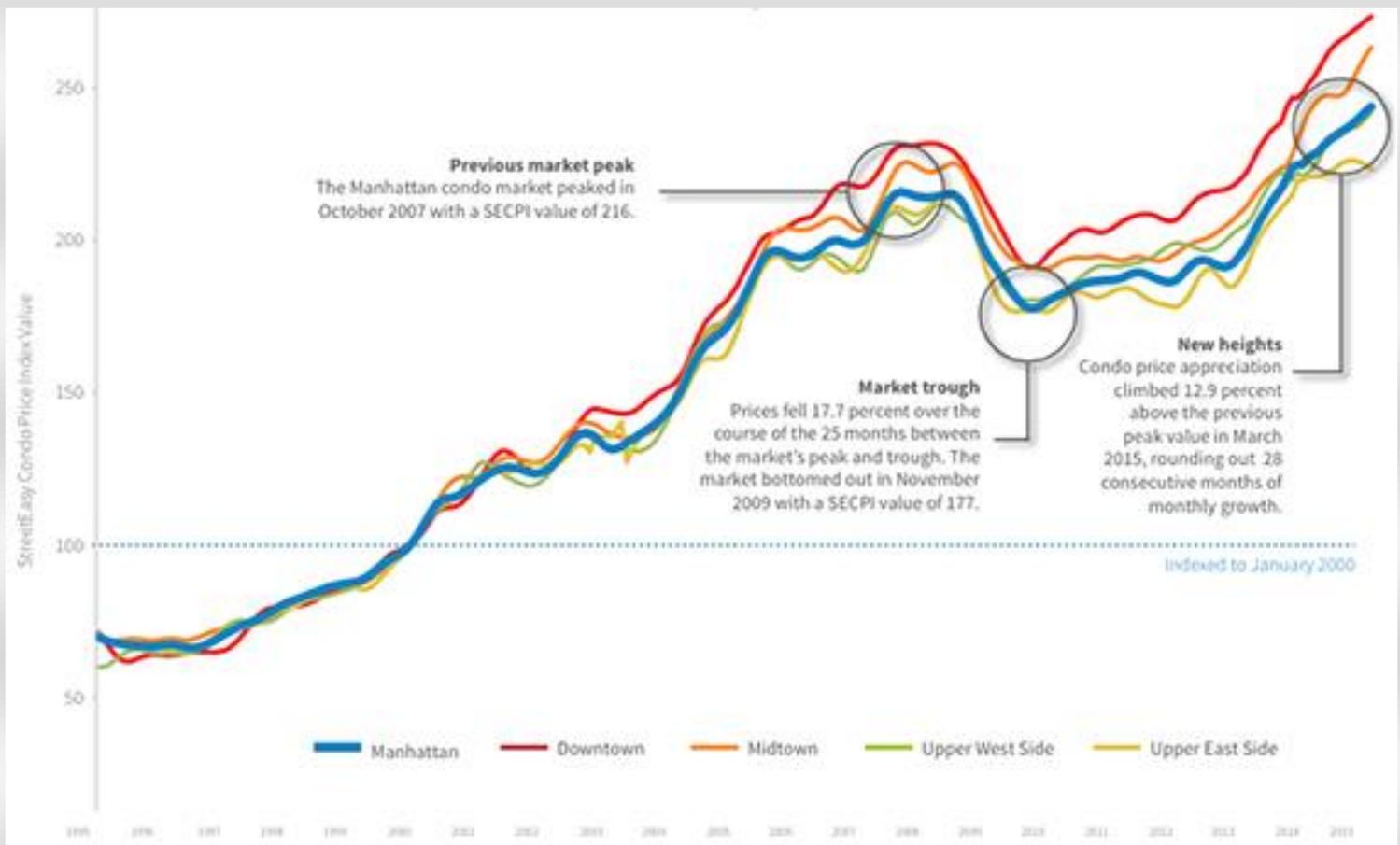
* Courtesy of Corcoran

The Robustness of the Market

New York City real estate has the reputation to be very solid and has proven its resilience along the years. At the exit of the the largest financial crisis, the condo market in Manhattan lost “only” 17%¹ on average between the top 2008 and the bottom compared to 40-70% in other big cities. Before the crisis, from 1996 to 2006 (including the internet bubble of 1999-2000), the market increased by 124%². From 2009 to 2015, the market has increased by 36%, a growth that has been boosted by the number of super and ultra-luxurious apartment sold over \$10M, with a noticeable New York wide record sale of \$100.5M at One57, on the exclusive 57th Street aka Billionaire’s row. 36% over 5 years...I leave you to your sensibility to consider this number the sign of a bubble or not.

Increase of New Products Offerings but Inventories still Historically Low

While an average of 7,500 apartments were feeding the market before 2008, this average dropped to 2,500/year between 2008 and 2013. Now, the trend is adjusting with around 6,500 newly built apartments coming this year on the market, despite the fact that over half of them have already entered in contract since the past months and were sold on plans. The most active price segment in Manhattan is for apartments (Co-op & Condos) selling between \$1.5-3.5M³. Regarding the inventories, New York hit again another historical low level in February with only 3,175 condos, a level half of what it was pre-2008.



1. http://streeteasy.com/nyc/market/condo_index
2. [http://furmancenter.org/files/Trends in NYC Housing Price Appreciation.pdf](http://furmancenter.org/files/Trends%20in%20NYC%20Housing%20Price%20Appreciation.pdf)
3. http://therealdeal.com/issues_articles/hitting-the-sweet-spot/

Absorption Rates below the average (6-9 months) and Price Stabilization

The average absorption rate for condos is 4.7 months, well under the 6-9 months equilibrium. Looking into this number, we observe that 1 and 2-bedrooms have an even lower absorption rate (3.3 and 4.1 months respectively, while 3Bed+ have reached a rate of 9.9 months. On one hand we have the 1 and 2-bedroom market in the “affordable luxury” (\$1,700-\$2,300/ft) and luxury (\$2,300-3,000/sf) categories that have dominated the market; on the other hand, the influx of New Development products in this category where prices range from \$7M to over \$100M is one of the reasons behind this high average. Buyers in this category of super (\$3,000-5,000) and ultra luxury (\$5,000 and up) have more products to choose from and can now take more time to decide.

The Median Price (preferred measure as it eliminates the outliers) is at \$970K, which is the 5th highest level over the last 25 years, and stable compare to the Q1 2014.

Nearly half of the purchases are 100% cash with 2.5-3.5% net yield on Condominiums

Competition on the small level of inventories is tough, with an exceptional credit worthy and cash healthy pool of buyers who can satisfy lending establishment’s stringent loan requirements, or perform their purchase all cash. Market wide, 45% of all purchases is cash. For the condo market, this number increases to 58% and 73%⁴ for single family home.

Net rental yields on Manhattan condos rarely go over 4% for properties acquired in the last 12 months. However, Brooklyn has a better hedge there since rental prices have surged at a higher pace than Manhattan but sale/resale price are still maintaining levels below comparable products on the island. Living in Brooklyn has become a choice rather than an obligation, as it was perceived few years ago.

Net rental yield on 2-4 multi family houses in Brooklyn still offer 4-5%

In Brooklyn, choosing to live in 2-4 families’ home offers lower carrying and ownership costs compare to similar size condos or co-ops. On one side, annual expenses are a fraction to what you would spend in an apartment (a 3-4,000/sf house would cost about 12-14K/year in taxes/insurance/energy) while a condo or co-op of that size will certainly average over \$40K/year. On the other side, owning another unit within the same building can allow for extra rental income, sometime sufficient to cover the mortgage and/or cost of carrying the house.

An exceptional dynamism brought by a positive demographic and economic growth

New York population (Metro Area) has grown at a faster pace than the estimates and is only 60,000 short of the levels expected for...2020. Out of this growth, 60% is concentrated in the 5 boroughs: Manhattan, Bronx, Brooklyn, Queens and Staten Island). To put these numbers into perspective, this same concentration was only 27% between 2000 and 2010. This change is due to the evolution of the lifestyle that favors life close to the center of big cities.

Economically speaking, the employment level is at its highest, with a 6.6% unemployment rate compared to the 7.9% in February 2014. Out of the 151,800 jobs that were created in the past 12 months in the State of NY, 105,600 (two third) have been claimed in New York City according to the Statistic Bureau of The State of New York. The financial sector added 8,900 jobs generating an average income of \$260K annually. Out of the 34,900 jobs created in business services, a majority has a salary over \$100K annually. Commercial real estate is also very healthy with a vacancy rate below 10%. This lack of available spaces is mostly due to the conversion of large commercial buildings into hotels or residences, the growth of the TMT sector, and the come back of the financial, educational and medical services.

⁴ http://therealdeal.com/issues_articles/hitting-the-sweet-spot/