New York Quarterly Real Estate Newsletter

Manhattan Q2 2015

The key takeaways from the Manhattan Q2 2015 Corcoran sales report *:

- **Record High Prices:** Thanks in large part to sales of new development properties, the average price increased 8% to $1.81 million, the highest that has ever been recorded. The average price per square foot (ppsf) is now $1,643. The median price registered a lesser gain of 4% to reach $960K, up 1% from Q1 2015 and 4% from Q2 2014.

- **Rising Inventories:** Although the market is still experiencing relatively limited supply, the number of homes listed for sale in Manhattan was up 12% over the same quarter in 2014, as freshly released new development reached the market, and homeowners took advantage of the spring selling season.

- **More Sales:** The pace of closed sales was up 2% over the same quarter one prior, and the number of signed contracts 7% higher.

Brooklyn Q2 2015

The key takeaways from the Brooklyn Q2 2015 Corcoran sales report*:

- **Swift Sales:** Sales in Brooklyn have exceeded the seven-year average for nine consecutive quarters. Busy open houses and multiple offers were the norm. The number of signed contract was up 4% over the prior quarter.

- **Prices set records:** Strong demand and low inventory kept prices on the rise. The average price and average ppsf reached their highest level in 7 years, or $704. One of the key drivers of the increase in prices is the fact that there is still a large demand meeting the still low inventory. Also, the inventory under $1M, a key price threshold, has been constrained for several years in Manhattan, further fueling the competition in Brooklyn, where 78% of Brooklyn's listings are below $1M compared to only 34% in Manhattan.

- **More inventory…but still not enough:** For the fourth consecutive quarter, the available inventory in Brooklyn rose year over year thanks primarily to an injection of new condominiums. However, the market is still undersupplied with an absorption rate of 5.6 months and a small pipeline of new developments (see further notes below).

* Courtesy of Corcoran

Inventory, price level and the impact of New Developments (Manhattan)

Despite a 20% increase in inventory from Q1 2015, the months of supply market wide decreased slightly from 4.3 to 4.1 (equilibrium is between 6-9 months), with the 1 and 2-bedroom segments being the most under supplied category (3.3 & 3.8 months) and the 3+ bedroom being within market equilibrium (7.8 months). Properties below $1M accounted for 34% of the inventory but a staggering 53% of total sales, and properties within $1-3M accounted for 34% of inventory and also 34% of sales.

New Developments figures are revealing that this particular segment is pulling the numbers upward when aggregated with the rest of the market: The 64% increase in sales with only 30% more inventories drowned the month of supply by 21% to a low 5.1 months leaving the demand unsatisfied. New Developments accounted for about 12% of all sales but with an average sale price doubled of what has been recorded market wide ($3.719M vs $1.824M) and 80% higher than the re-sale condos ($2.045M) confirming a steady appetite for the new products hitting the market.

The price will eventually level at the high end of the market and this could impact the average price per square feet moving forward. Despite a couple of high profile and well sought after products (Robert A.M. Stern 220 Central Park South for instance), there is little doubt that the products on the very high price point of the market will not be absorbed as quickly as the precedent years since the demand has a larger choice. However, with a different type of offerings of ultra high end products of smaller sizes, a reduction of the average sales price may happen, and may be counter balanced with a surge in the level of price per square feet. This comes in reference to the necessity of the developers who acquired land at $1,000/sf and above to be able to recoup their cost. Ziel Feldman, who is developing on the Far West Side of Manhattan calls for units below $10 M range to feed a demand, starved of products within the $3-5M price range, and who favor quality over quantity.

Global Wealth and Potential Contribution to New York Real Estate

Eyes are staring at the high end of the market because this is where the action and suspense are. Indeed, with the current inventory of super-luxury products and the upcoming offerings to burgeon on Billionaire's row (57th Street), it is only fair to ask if the demand across the world could be sustainable to absorb the current and future delivery of luxury products; which, if this is not the case, could trigger a luxury bubble that could supposedly take the entire market down. According to Wealth-X, ultra high net worth individuals aka "HNWI" ($30M+ of Net Worth) hold 13% of their net assets in Real Estate, and categories of buyers in respect to their investing power can be laid out as follow:

- 97 properties priced above $30M means 1.15% of the World's individuals worth $500M+ (8,410) should buy a property in Manhattan to wipe out the inventory.
- 445 properties priced between $10-$30M means 0.9% of the World's individuals worth $100-500M+ (48,890) should buy a property in Manhattan to wipe out the inventory.
- 1,088 properties priced between $3.8-$10M means 0.7% of the World's individuals worth $30-100M+ (153,700) should buy a property in Manhattan to wipe out the inventory.

These numbers seem optimistic but do have some caveats. First, not everyone in the world worth $30M, $100M or $500M+ is in the market to shop for a Manhattan property, since some of them already own in the city, or may not be interested in buying in New York. Second, should a portion of the HNWI worldwide desire to buy in Manhattan, nothing guarantees the level of their purchase. Someone worth over $100M may very well settle for a less than $3.8M property. Third, this offers some guideline for future developments to focus on the segment below $10M, even $5M to feed a category of apartments that the market is obviously lacking.

How could China's economy impact New York real Estate?

China has grown as a bigger concern when talking about US and New York Real Estate. According to the National Association of Realtors, China invested \$13B in 2013 and \$22B in 2014 in the US and \$2.1-\$3B in New York Real Estate. This year is set to dwarf these records with the \$2B sale of the Waldorf Astoria to Anbang Insurance. Chinese real estate investors could be categorized as follow: leveraged developers, individual cash buyers and financial services firms looking to diversify.

Leveraged developers represent the highest level of concern. According to Dealogic data, Chinese developers have \$66 billion in dollar bonds outstanding. When the dollar strengthens, these bonds are harder to service because most of these firms' income derived from local activities earnings in Yuan, and explain why Kaisa, a Shenzhen-based mega-developer, defaulted on a dollar bond recently. While we are far from the set up of what brought the 2008 financial crisis, we may observe some defaulting and debt re-scheduling.

The two other categories that acquired condos and significant pieces of real estate have a buy and hold strategy and performed cash acquisition rather than using debt. With troubles in the local Chinese real estate market, NY is still considered as a flight of safety with better yields. From that perspective, a continued decline in the Chinese real estate market along with a potential soft landing of their stock market could potentially boost acquisition of NY real estate.

Brooklyn is starving!

In a borrow of 2.6M inhabitants or 1.6x the population of Manhattan, a level of inventory less than half its counterpart's is alarming. Despite a 35% increase of inventory across the Brooklyn market and a lengthening of the absorption rate from 4.4 to 5.6 partly due to the sales commencements of high profile new developments, the lack of new and resale products across the market's spectrum is just not enough to reverse the seller's market trend.

One of the main reasons behind this lack of products is the strategy adopted by developers' post 2008. To better feed the future market needs real state developers switched from building condos to rentals, cautious about how the market would recover in the borough that has seen prices falling dramatically (almost 20% market wide) during the recession. As per July 1st and according to the Department of Buildings, there are 137 projects combining 23,700 residential units on the way from which 17,600 are slated for rentals, 4,200 unclear and only 1,900 for condos. Most of the condos in the pipeline won't be delivered until 2016-2017 such as the Boerum (70% of 128 units already sold in less than 6 months) or 550 Vanderbilt (287 units, selling at over 1 unit/day since opening of the sales center in July). The selling on plan phase is going at a very fast pace in price ranging between \$1,250/ft to over \$1,600/ft.

Brooklyn real estate market has peaked up steam quicker than expected and the condo developments opportunities are facing other obstacles. Indeed, the height restrictions and zoning variances necessary in the prime Brooklyn neighborhoods limit for large developments to take place. Since market timing is also another general concerns for developers, we could see a trend of rental-to-condo conversions such as WaterBridge 47 in DUMBO or 184 Kent in Williamsburg, which would allow for additional inventory to hit the market faster than a ground up construction would.