

New York Quarterly Real Estate Newsletter

Manhattan Q4 2015

The key takeaways from the [Manhattan Q4 2015 Corcoran sales report](#):

- **Mixed signals on Sales Volume:** 3,725 properties closed this quarter, bringing sales volume up 5% y-o-y but down 10% from 3Q15. **New Developments** closings were the sole contributors to the overall sales increase, as properties sold "on plan" in 2012-2013 are now starting to close. The weight of **New Developments** contracts converting into sales should increase for the next couple of quarters. However, the drop of 12% of contracts signed y-o-y and 7% from 3Q15 combined with the last quarter sales trend in the resale market are confirming the signals of a softening market.
- **All time high Price Levels:** Median price (\$1.1M) and average price (\$1.9M) are at all time high as a result of a combination of historically low inventory levels, continuous buyer demand and growing contribution of **New Development** sales in the sale mix. New Development prices are pulling numbers upward with median price of \$2.240M and an average price of \$3.257M.
- **A welcoming rebound of Inventory but a drop in Days On the Market:** After hitting their second lowest level last quarter, inventories have enjoyed a much needed increase of 14% y-o-y. Unsurprisingly, studios inventory are down by a staggering 17% y-o-y with months of supply dropping 29% to only 2.9. With **New Development** offerings focus on larger and more expensive units, impacting the growing scarcity of studios. Days On the Market has dropped market wide to 84 days, down 17% from same time last year.

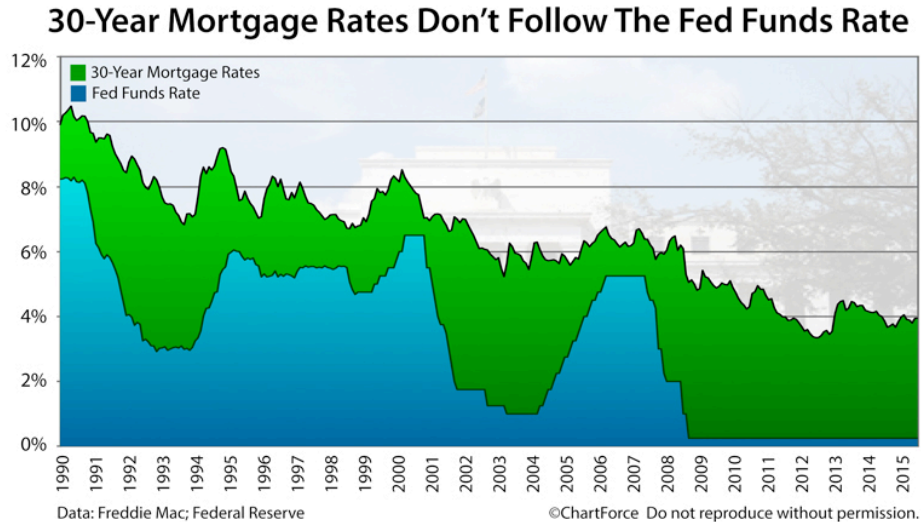
Brooklyn Q4 2015

The key takeaways from the [Brooklyn Q4 2015 Corcoran sales report](#):

- **Growing Sales Volume:** 4Q15 was the strongest fourth quarter since 2008 with 1,282 units sold, up 6% y-o-y but down 11% from 3Q15. Competitive **New Development** sales along with Co-op offering have substantially contributed to the shift of buyer's preference from Resale Condos, which experienced a 9% decline y-o-y. Signed contracts also experienced a y-o-y drop (11%), but were up (2%) from last quarter helped by New Developments.
- **Price Levels keep moving up:** Brooklyn ends 2015 on a strong note with a 9% and 5% y-o-y increase in median price (\$545k) and average price (\$672k) respectively. The median and average price per square foot both experienced double digit growth y-o-y with 14% and 11% respectively. This burst is partly due to the 4% drop of transactions below \$350K to the benefits of transactions above \$500K.
- **Growing Inventory with fewer Days On the Market:** After 4 consecutive quarter-to-quarter growth (2Q14-3Q15), which followed a 3 years continuous drop (2Q11-2Q14), inventory slowly grew (3%) from the same time last year totaling 2,104 units. This was mainly due to the 12% drop in co-op listings, which was only slightly offset by the increase in condo and **New Development** offerings. A critical number is the 4.6 months of supply that remains unchanged since last year, and supports the fundamentals of an under-supplied market across the segments. Finally, average days on the market hit a low 65 days market wide meaning that it takes on average only 2 months for a property to sell in Brooklyn.

What Does The Fed Say?

I have heard countless stories about how the Fed decisions would impact mortgage rates and the Real Estate market; and here is what I believe is reasonable to say about the Fed's relation and possible effects on both.



First thing to know is that the FED does not control or make Mortgage Rates, Wall Street does through the trading of Mortgage Backed Securities (MBS), a security sold via Wall Street. However, the FED does exert an influence on today's mortgage. Explanation: this chart (above/side) shows that the FED's rate has no direct connection to US 30-year mortgage rate. So why should we pay attention? Fed's comments on inflation are very relevant to home buyers and owners as inflation is directly linked to the rise of mortgage rate. Mortgage bond and inflation are oppositely correlated; therefore, under inflation pressure, the price of a bond will decrease and its rate will go up, setting up higher mortgage rates for purchasing or refinancing a home. On Jan 20th 2016, the US government reported the latest inflation rate of 0.7% for through the 12 months ending December 2015, a rate well below the Fed's per year target of 2%.

Also, keep in mind that low interest rates make housing affordable but they are not the only metric that helps support the housing market. Employment and economic growth are also crucial factors to the health of the housing market. Therefore, a rate increase which is designed to prevent an economy from growing too fast, means that the Fed is confident about US economy; a message that should carry on a positive impact on Real Estate.

New York City - #1 destination for Real Estate foreign investment in 2015

Fear of a bearish stock market and uncertainty about China coupled with incredibly low oil prices are making Real Estate investment great again (no joke intended). Oil-dependent economies such as Norway, Russia, or the Middle East, who have seen the barrel of oil fall below \$30/barrel and now need to complement that lack of revenue, have been increasing their investment into commercial real estate (office condominium), multifamily and mixed use buildings which guarantee a stream of income indefinitely. The potential downside of such shift is its impact on ultra luxurious real estate, on which Oligarch and Saudi Arabian have been known to splurge before finding out that the rental market for a \$50K+ month property was in fact, very limited, and therefore could not produce any rental income. A key fact to remember is that out of the \$87.3 billion completed deals last year nationwide (this number does not include contracts signed waiting to close), a staggering \$23.5 billion (27%) was in Manhattan, the #1 destination worldwide for foreign investors.

Why Buy Real Estate Now?

The expectation that real estate prices will go down in 2016 was 2015's most common reason to not buy. Already in the 4Q15 we were experiencing price drops and more discounts applying to resale properties, but no concession were given on the New Developments sites who brought better products at competitive prices for the group of buyers willing and able to wait a couple of months/year before taking possession. However, it's important to discern a market correction from a market crash. The magnitude of the impact of 2008 crisis, which also proved the resilience of New York City real estate market (see [Newsletter 1Q15](#)), is not expected to re-occur now or anytime soon. Therefore, despite steep discounts (10-20%) on high end properties plausible and more frequent because of the competitiveness and availabilities of New Development products, the entry level to mid-market properties may not be so generous and could be more in the 5-10% range in non-prime markets and based on recent comps.

An important fact regarding comparable, is that they don't always tell the true story notably because of the lag time between an accepted offer and closing which can take up to 3 months for condos, about 3-6 for co-ops, and sometimes years for New Developments bought off plans. Buyers have more opportunities to bargain now and in the next couple of months. While I advise seller on the value of their property and the "what's next" dilemma, I rarely recommend selling, except for the following reasons: 1. Change of ownership type from co-op to condo, which consists of making your money work toward real property rather than the shares of a company, and that provide more freedom when needs to sublet arise. 2. If owners own a less than desired performing asset, a market re-positioning opportunity can be explored and a specific plan outlay.

Finally, the high down payment required on condos (40-50% if no tax abatement) to make a mortgage + RE Tax + Common Charges monthly payments equivalent to the rent of a comparable apartment, the idea of pooling in with several parties (2-3) could then open the possibility to invest into a multi-family brownstone in Brooklyn, a market that has been enjoying higher price and rental appreciations and could guarantee a stream of income and additional equity to borrow against for the future.

Game Changers for Downtown Brooklyn

Brooklyn's real estate market is hot and fundamentals are supporting the sustainability of the Golden Age trend (see [Newsletter 3Q15](#)). The Borough offers various living styles within a wide array of neighborhoods with prices and properties at significantly lower than Manhattan (\$545K Brooklyn median price is half Manhattan's). This quarter, I'd like to focus on Downtown Brooklyn (DoBro thereafter). Since the 2004 rezoning, DoBro "has added 8 million sf of new development, including 5,200 residential units, over 1,000 new hotel rooms, nearly 250K sf of office space and 625K sf of retail totaling over \$400 million of public and \$4 billion of private investments" according to a 10 year report by the Downtown Brooklyn Partneship. This neighborhood has set itself to experience radical world class city level of improvements thanks to an aggressive urban retail planning strategy and new condo offerings that are going to propel this neighborhood. Indeed, Brooklyn's 388 Bridge street started the wave of new high rise residential buildings with services and amenities comparable to Manhattan's offering at much more competitive prices. Now that the mid-market/luxury segments has found a steady pace, luxury players such as JDS ([Walker Tower/111 West 57th](#)) and Extell ([One57](#), [1 Riverside Park](#)) are paving the way to the next wave of super luxury offerings in the neighborhood. At 340 Flatbush, JDS is planning an over 1,000ft tall condominium tower with a retail component at the bottom and Extell is working on the approval of a 692ft tower on Fulton and Albee, adjacent to City Point mega project. Both towers are expected to be completed in 2019, and with close to 1,000 units between the 2 of them, I hope sales will start before mid 2017.

Apart from rental residences and offices, City Point, mentioned above, is offering a top notch retail offering and has already welcomed the Austin based movie theater chain Alamo Drafthouse who offers food, beer and cocktails delivered to your seat. A Trader Joe's and a 26,000sf market hall dubbed Dekalb Market Hall are both slated to open in 2016. Apart from the attractive food and entertainment purveyors' contributions to the retail mix, C21, and a 90,000sf City Target (Target's urban concept) are also anchored tenants. It is only fair to assume that within the next couple of years luxury retailers of the like of LVMH may open some retail outputs to top the retail mix of a fast growing neighborhood.