

New York Quarterly Real Estate Newsletter

Manhattan Q3 2015

The key takeaways from the [Manhattan Q3 2015 Corcoran sales report](#) *:

- **Continuing record prices.** With new development sales robust, the median price for an apartment in Manhattan reached \$999,000, a ten-year high. The median price per square foot is now \$1,284, up 11% from a year ago.
- **Sales increased year-over-year...** The pace of closed sales was up 3% over the same quarter one-year prior, and there were 11% more signed contracts.
- **...but have slightly decreased** from Q2 2015. Numbers of contracts signed are down 21% from previous quarter which may be an indicator of a more pronounced slowdown to come (see further)
- **Another inventory contraction.** For just the fourth time in the last ten years, the number of properties available for sale in Manhattan fell below 5,000 – a dramatic shortage that is helping to maintain the rise of sale prices.

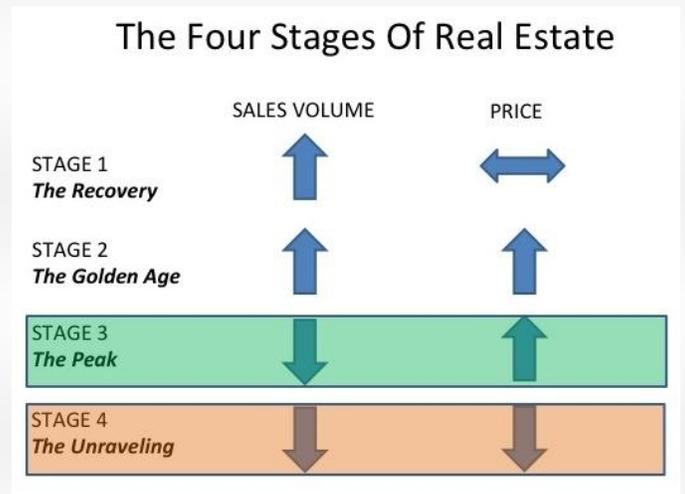
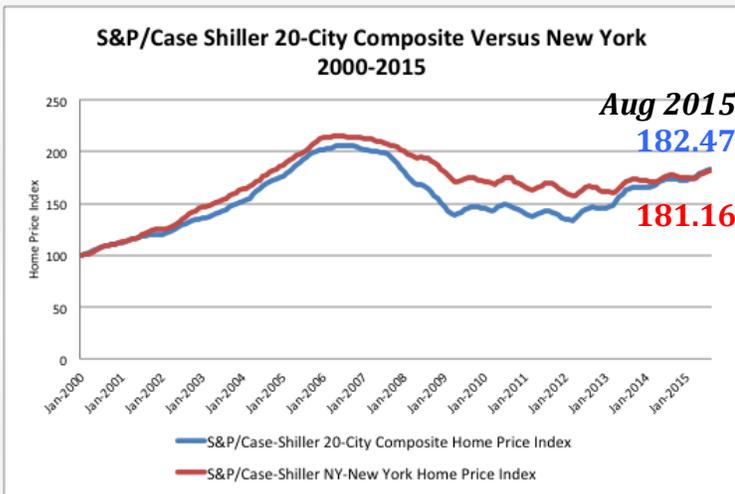
Brooklyn Q3 2015

The key takeaways from the [Brooklyn Q3 2015 Corcoran sales report](#) *:

- **Second-strongest third quarter in seven years...** Despite a normal decline in re-sale activity in the third quarter, new development sales in Brooklyn rose – lifting the Third Quarter's performance in 2015 to a significant height.
- **Despite historical year-over-year price increase** across the market, Brooklyn's affordability and competitive offering in relation to Manhattan gives room for further appreciation and signs of sustainability
- **More sales.** The pace of signed contracts increased by 9% year-over-year, as more purchasing options made themselves available.
- **Inventory growth.** Once again, more listings entered the Brooklyn market, feeding a notable demand for property. Nevertheless, the total listing inventory remains 29% below the peak in 2011.

Is Manhattan just catching a breath?

Since 2000 and even more so post 2008, New York price levels have outpaced the 20-City Composite (20 US Major metropolitan statistical areas). However, records taken from April '15 to August '15 show that this trend has switched side with New York prices loosing steam on the 20-City Composite.



With price levels breaking records high and reaching resistance levels, it is fair to ask whether the Manhattan market is reaching the end of a cycle and if so, what we may be exposed in the next couple of months. Above, I am providing an updated version of the 4 stages of Real Estate for the Manhattan market that previously featured in my [Q3 2014 Newsletter](#).

Being in the front row of this real estate spectacle there are 2 observations that are worth sharing:

- Price exhaustion:** The price increase that the market has experienced is slowly coming to an end. Customer's perception of value is no longer matching the greed of certain sellers, forcing them to correct pricing while in the mean time slowing down the sale process. It happens at every price point and if a property is not well priced within its segment, it just won't sell. In other word, the demand is still there, but is also more careful. With high profile new developments closing between now and first half of 2016 such as [150 Charles](#) (90 units/\$750 sell out) and [56 Leonard](#) (145 Units/over \$1.1B sellout) among others, the recorded sales on super luxury products could still maintain or pull the average and median sales price up.
- Sales volume may decrease:** this effect should be felt in a couple of months from now. The explanation relies on four concurring events. Inventory levels are historically low and mixed with an increase in new developments offerings that won't close until another 12-24 months (see detailed analysis next page). Concessions are up in the rental market, which may delay the decision to buy. In addition, a significant 21% drop in contract signing has happened between Q2 and Q3 2015, which should impact future volume of sales transactions. Finally the competitive alternatives of more affordable markets in NJ and upstate NY suggest that the buyer's pool is not afraid to entertain a different dynamic privileging the suburban over the city lifestyle.

The combination of these 2 effects could lead the market into the Stage 4 or "the unraveling" where price corrections and sales adjustments should happen. It is highly improbable that we will be facing an impact of the magnitude of the 2008 crisis, as the fundamentals are still strong for New York City. Also, feedbacks from Open House are confirming a steady activity on the buy side, with regular bidding wars for well-priced properties with character.

Brooklyn is taking on a solo lead

While Manhattan is now shuffling on indicators that could allow to think of a market rectification, Brooklyn is still relishing the joy of the Golden Age and has not only be standing out as a competitor for entry level to luxury properties but also stealing the show of multimillion dollar buyers to Manhattan through an offering of over the top waterfront properties. Best example is the record-breaking condo at [One John Street](#) in Dumbo, which has a contract out for over \$8M. This 42-unit condominium is 70% sold at an average price of \$4M and \$1,806/sf and scheduled to open second quarter of 2016. On a more macro level, Brooklyn's closings this quarter (1,271) were 14% higher than the average closings/quarter post-2008 crisis. The demand keeps outpacing the supply which is mostly symbolized by the year-over-year 24% and 26% decrease on average days on the market for 2 and 3-bedroom apartment despite a 5% and 21% increase in supply respectively over the same period. The median price (\$623K) and median ppsf (\$885) are both up 28% and 27% respectively from the same time last year. This significant increase is partly due to a swift in the sales mix with properties over \$1M capturing about 25% of the market versus 14% over the same period last year.

In terms of New Developments, Brooklyn only has about 500 units spread over 30 projects that will soon hit the market. The 1938 units currently selling have for a large majority already entered in contract and/or closed. Another wave of larger development such as JDS super tower and the residential development of the Pacific Yard should help catching up with the demand, but more needs to be done in such an economically and culturally dynamic borough that houses over a million more people than Manhattan.

New Development Pipeline update

The focus of this analysis will be on the units scheduled for delivery in the next years, highlighting the most dynamic neighborhoods and market segments.

	Entry Level <\$1,700	Mid Market \$1,700-2,300	Luxury \$2,300-3,300	Super Luxury \$3,300-5,000	Ultra Luxury \$5,000 and up	TOTAL UNITS
2016	364	1,575	1,208	200	125	3,472
2017	12	601	425	183	33	1,254
2018	0	886	260	8	289	1,443

For the year 2016, a total of 3,472 units are planned for delivery. The Entry Level (364 unit) accounts for only 10% and is mostly represented in Midtown West and East Village with developments of the like of 416 West 52nd Street and 62 Avenue B (none have website so far). The "good" news is that almost half of the inventory (1,575 units) is in the mid market with Gramercy (451 Units), Tribeca (227 Units) and Midtown East (338 Units) leading the pack. Some notable developments there are [88&90 Lexington](#), [100 Barclay](#) and 234 East 46th Street (no website yet). The Luxury segment (1,208 units) is lead by Tribeca (357 units) and the Financial District (259 units) which both have over 70% of their units under contract. The Super Luxury segment (200 units) will serve mostly the Flatiron district (131 units) with [45 East 22nd Street](#) and iconic [212 Fifth Avenue](#). Finally the Ultra Luxury segment will witness the closings of [432 Park Avenue](#) which is said to have a Penthouse in contract for \$90M+.

The astronomical land price and increasing labor cost have made new constructions very expensive pushing the offering to satisfy the upper crust of the demand. The combined 838 units planned for next 3 years in the Super and Ultra Luxury segments sound like a frightening number, especially with developments like [111 West 57th street](#) with 60 units starting at \$16M. On the other hand, stellar products in this category such as [220 Central Park South](#) have been selling like hot cakes, with over half of the total \$2.8B under contract in just 2 months of sales – rumors talk about a combination of Penthouses negotiate for around \$200M which would dwarfed the current record of \$100.5M hold at [One57](#) building.