New York Quarterly Real Estate Newsletter

Manhattan Q2 2016

The key takeaways from the Manhattan Q2 2016 Corcoran sales report:

- **Sales Volume continues on a y-o-y downward trend:** With 3,434 sales closed in Q2, sales slightly rebounded from Q1 (+6%) but dropped 14% from the same time last year. This trend is even more pronounced in regards to the number of contracts signed (3,287) that dropped 20% from Q1 2015 but experienced a slight recovery of +12% from the previous quarter. **New Developments** closings increased by 60% from Q2 2015 and stabilized from previous quarter.
- **Price Levels are leveling near record high:** The average price is flirting with the the $2M mark which was broken the previous quarter ($2.212M) and the Median Price is also continuing its upward trend stabilizing at $1.150M from the same period. While overall sales dropped from the same time last year, the price point of New Developments closing is keeping the $ sales high. When segregated, **New Development** average and median prices are $3.899M and $2.535M respectively, nearly doubled the resale condo's ($1.830M and $1.253M).
- **Inventory and Months of Supply keeps their ascendant trends, with Average Days on the Market joining the march:** Market wide inventories are growing for the third consecutive quarter to offer 6,409 products, 11% more than the same time last year, and 20% than Q1 2016. With 5.3 months, the Months of Supply metric remains well below the 6-9 months equilibrium) but on the rise. Average Days On the Market have increased to 97 days which could be explained by the some resilience for price adjustments.

Brooklyn Q2 2016

The key takeaways from the Brooklyn Q2 2016 Corcoran sales report:

- **Sales Volume level remain strong despite 17% y-o-y drop:** 1,236 sales were recorded this Quarter corresponding to a 9% above the past 5 years quarterly average, and is leveled with last quarter number. However, the number of contract signed progressed by 18% from last quarter which represents a higher jump than what occurred from Q1 to Q2 2015.
- **Prices on the ascending trend:** The median price ($601k) and average price ($765k) progressed 8% and 12% y-o-y respectively. Similarly, both median and average price per square feet saw double digit upward movements (15% &17%). The 20% drop in inventory below $500K combined with a quarter of all sales over $1M and the rise of New Development Sales have majorly contributed to fueling this increase.
- **Inventory & Days On the Market stabilized while Months of Supply softens:** The 16% drop in co-op resale was partially offset by the 53% increase in New Development inventory which represents only a 1/6 of total inventory dominated by resale co-op and condos. Properties between $750K and $1M as well as 2-bedroom apartments were the most popular among buyers symbolized by the shortest marketing time of 50 and 59 days on the market. With 5.3 months of supply, Brooklyn remain an undersupply market.

Drop in residential permits & non-renewal of 421-A tax abatement: What does it mean to you?

The number of permits issued for residential construction abruptly dropped in Q1 2016. Less than 2,000 new residential units were approved, down 70% from the same quarter last year, and a far cry from the 36,000 units approved in the 2nd quarter 2015. I am talking about these boring figures because it may have some consequences for whoever is planning or holding off buying a new development in the next 12-24 months. The reason is that it would affect directly the ability for mid-range and entry level products to see the light in the future. Therefore, I thought that a bit of planning ahead could help.

This massive drop in permits can be attributed mainly to the non-renewal of the 421-A tax abatement program and similar tax incentives without which it becomes no longer feasible for a developer to build mixed-income residential developments. As a result developers have two options: build 100% affordable and benefit from special tax abatement (420-C) or build for the uber wealthy. The first one is not so exciting and profitable and the second choice is risky after a noticeable slowdown of the super and ultra-luxurious property market. With higher cost of land, labor and materials it is essential to find a consensus to keep the city building while fostering the diversity of neighborhoods.

I think a solution that would bring back the 421-a tax abatement in conjunction to the MIH (Mandatory inclusionary housing) could be beneficial for everyone: a. the developer can make a profit; b. the products offered can correspond to the standards and market rate that the middle class can demand and offer without having to pay through the nose; c. the MIH measure will maintain diversity and community life in the neighborhoods. For this to happen, the State officials have to take the lead!

Another factor is the cost of and tax levy on land: on one hand, the landowner is refrained to sell because of the taxes that the city would demand upon divestiture. On the other hand, the developers can't take additional risk to overpay for land, and build residences that can't sell because of a mismatch between price and overall offering. The alternative that I have seen coming up more often is land lease. Basically, the developer signs a long-term lease with the landowner to use the land and build upon. 70 Charlton in Soho and 100 Barrow in the West Village are the best recent examples. I like 70 Charlton for the quality and location offered at a mid-luxury price point (around $2,000/ft). In addition, the land lease runs for over 120 years and the property benefit from the 421-A which lower the overall monthly carrying costs that are found to be often higher for condos built on a land lease.

The Two Bridges: Lower East Side's waterfront district mindful development.

The development of the Lower East Side waterfront district a.k.a. Two Bridges is a concrete example of how the use of 421-A tax abatement can benefit and foster changes and improvements in New York City while empowering local communities.

JDS Development and SHOP Architect have teamed up to conceive a 600 unit residential tower and making 25% of it affordable. The plan for the tower came into play with a thorough and comprehensive work with the local community to not only create 150 affordable units, but include a very innovative solution to leverage the utilization of unused development rights to improve the local community. As part of the deal made with the local not-for-profit groups, JDS will not only pay for the renovations of the senior building adjacent to the upcoming 77 story tower, it will also create a 4600sf community center for the senior residents in the new tower accessible from the original building as well as green outdoor space. It's a different approach to neighboring under construction Extell 80 story/800 unit condo building where the affordable units will be built in a separate building to avoid the "poor door" dilemma, while JDS has decided to spread the affordable unit across the building. A rendering of the two towers can be seen here. Aside from any political position on the way the developers successfully reach their goals, the Extell Condo is bringing an amazing offering with a list of amenities and views that no one could offer for this price in Manhattan now or in the near future. While official sales start in September, I visited the sales office and experienced a mind blowing virtual tour and also been granted the privilege to introduce interested parties to the sales team prior to launch.

Hudson Yards opened last month: What should you expect?

All the eyes are turned over the Hudson Yards where The Related is creating a live-work-play integrated lifestyle and environment unparalleled to any other places in the city.

As a reminder, Hudson Yard is the most expensive ($20 billion) private real estate development ever built in the United States. The Related is developing a mini city within the city by providing an integrated lifestyle environment combining high end residences, luxury hotels and shopping (1st Neiman Marcus in NY), upscale food and beverages alternatives (hello Thomas Keller), world class office space and amenities, a cultural center, green public spaces and entertainment for residents and visitors to create what is expected to be one of the most vibrant neighborhood in New York. This is not MidTown, not DownTown it is "NewTown" from the word of the founder Stephen M. Ross. I recently had the privilege to talk to Related CEO Jeff Blau who explained how essential the 421-A was in the feasibility and making of such project where 5,000 out of the 20,000 residential units are going to be affordable.

10 Hudson Yards office tower recently opened and is welcoming tenants such as Coach, L'Oreal, KKR, and SAP to name a few. The official marketing of the units at 15 Hudson Yards where the Related CEO as well as the Founder already scooped their own units should start this September and be marketing through Corcoran Sunshine Marketing group.

Taking a dip into the Brooklyn New Development Market before diving into it.

The days of an "affordable" Brooklyn Heights, Park Slope, Fort Greene or Clinton Hill brownstone long gone combined with the general dislike of looking for a co-op or overpaying for resale products, there comes a time where New Developments can save the day. Ditching Manhattan to experience Brooklyn's euphoria should bring up some considerations about the upsides buyers could anticipate while being cautious about the price point/location/quality of these upcoming properties.

First let's take a look at Williamsburg. Since the mid-late 2000's development saga dominated by the Edge on the waterfront of Williamsburg, nothing quite comparable had come to the market. It's about to change with a couple of new products. First, the 338 unit rental to condo conversion of 184 Kent Street a.k.a Austin Nichols House by the Kushner Cos where studio, 1-bed, 2-bed and 3-bed start in the mid $600K, $800K, $1.4M and $2.6M. The property is on the waterfront of Williamsburg and the offering has a current blended rate of $1,500/sf. It's competitive when compared to 2008 Development such as The Edge where resale units go for a blended $1,720/sf. Another product is The Oosten (216 units) located 429 Kent Avenue in the South portion of Williamsburg. The architect Piet Boon (Netherlands) also known for handling the Huys on Park Avenue South where units sell for around $3,000/ft has always done a tremendous job at creating a balance of clean/cosy/modern feel to the properties he designed. The price point for the overall standing of this product is attractive with a blended rate of $1,186/sf and 2-bed starting in the $1.3M range. Both properties will benefit from the Bedford Ave Whole Food opening on July 26th, and the anticipated Trader Joe's at…206 Kent Avenue.

If the waterfront is not your thing, Brooklyn offers attractive alternatives in Pacific Yard with the 278 units, 50% sold COOKFOX designed 550 Vanderbilt condo, and Park Slope with the 44-unit JDS ground up development at 613 Baltic. Both buildings are a game changer for the neighborhoods as they brings a level of finishes and amenities that are not common in these locations dominated by townhouses, co-ops and smaller condo buildings. There, the blended ppsf is around $1,500 which may sounds high at first, but comparatively much lower to similarly attractive residential products in residential Manhattan neighborhood.

Finally, I would be cautious with under 20 units ground up developments in the Bed Stuy area, and would priviledge townhouse conversions into condos and larger scale developments with a renowned developer/architect and designer for areas such as Bed-Stuy and Crown Heights. I curated a research tool and methodology that I use when in identifying these products and mitigating the risks to enter into the New Development game both in Brooklyn and Manhattan. For further information, please feel free to reach out to me.