New York Quarterly Real Estate Newsletter

Manhattan Q3 2016

The key takeaways from the Manhattan Q3 2016 Corcoran sales report:

- **Sales Volume and Contracts Signed take a dive:** Q3 witnessed a concurrent y-o-y drop of 17% and 18% in closed sales (3,418) and contract signed (2,589) market wide. The slowdown in contract signed is even more pronounced with 26% fall from the previous quarter (3,502 vs 2,589). **New Developments** closings had the lowest y-o-y percentage drop (-14%) but the sharpest drop (-25%) from previous quarter compare to resale condos (-14%) and co-ops (+3%).
- **Price Levels show resistance to downward sales pressure:** Overall, prices have progressed y-o-y showing double-digit growth in average ppsf ($1,714; +10%), median Price ($1.1M; +10%) and average price ($1,964M; +13%). From the previous quarter, prices and ppsf have contracted slightly (-2% to -5%). The biggest gains are within the **New Development** segment where the median price improved 63% y-o-y and 31% from last quarter to reach $3.35M. The average ($2,472) and median ($1,955) ppsf have progressed 12% and 15% y-o-y and experienced a slight decline from last quarter (-1% and 4% respectively).
- **Inventory and Months of Supply gains from y-o-y but contract from last quarter:** Market wide inventories have contracted 9% from previous quarter after three consecutive quarter to offer 5,860 products, 21% more than the same time last year. In parallel, months of supply have decreased by 4% from Q2 2016 but increased 30% to 5.0 months, which is still below the 6-9 months equilibrium. Finally, Average Days On the Market have increased to 81 days from same time last year (79 days) dropped 13% from previous quarter.

Brooklyn Q3 2016

The key takeaways from the Brooklyn Q3 2016 Corcoran sales report:

- **Sales Volume drops and realigns with 5 years average:** Closings dived 19% y-o-y and 7% from previous quarter to level at 1,162. Similarly, Contracts Signed decreased 6% y-o-y and 16% from previous quarter to land at 741.
- **Prices on the rise:** The median price ($675k) and average price ($926k) progressed 18% and 27% y-o-y respectively. In the same direction, Median ppsf ($908) and Average ppsf ($950) improved by 4% and 12%. The shift of sales below $500K to sales over $1M and $2M have been the main contributor to the rise in Prices.
- **Inventory, Months of Supply and Days On the Market increased y-o-y:** Inventory rose 7% market wide with 2,236 units available. This increase was mostly the results of the 40% increase of New development inventory reaching 475 units from 340 the previous quarter. Months of supply increased also by 13% to 5.3 months. While resale condos and co-ops maintain their level below 5 months, pricier New Developments are reaching 7.7 months. To that extend, Average Days on the Market increased by 16% to reach 67 days.

Market has softened: Yes. Bubble about to burst: Probably Not.

Saying that the New York real estate market has softened is an inevitable truth. However, considering it a bubble is arguable. The pace of sales and record breaking prices the past 5 years have got us used to an unreasonable dynamic that has never been seen before in New York. A market where over $1B sell out projects would sell off in a couple of weeks (150 Charles Street) or just a couple of months (56 Leonard) on plans! The market has definitely over heated on the top end with biggest price chops happening in the $15M+ segments; however, the city residential real estate remains fairly priced, active in the entry level and mid luxury market segments ($1,500-$2,500/sf), and with a condo pipeline topping out at levels well below the pre-crisis level.

Indeed, Based on the UBS Global Real Estate Bubble Index, New York remains fairly valued compared to his European and Asian counterparts London and Hong Kong both at a high risk of bubble. The resilience of the New York real estate market is also a critical factor. When the 2008 financial crisis happened and shattered the city at its core, the real estate market "only" retrieved 15% on average. Knowing that nearly half of the residential NY real estate have been bought cash over the past years, that credit qualifications have tightened so hard, topped with a healthy job market (NYC currently has the highest amount of employees in history), an explosive population growth (5 years ahead of the Census projections) and an unparalleled international aura, it is hard to believe of a single event that would make people stop believing in the growth and future of New York City.

New York developers are steering away from the idea that the growth in number of wealthy individuals around the world is a sufficient factor to insure selling off their hyper luxury products quickly or at all. Therefore, they are now re-adjusting their strategy to cater to the market that can organically meet their sell out objectives. Indeed, the $1M to $4M market is still going strong but the products offering is still limited, making it an attractive segment to tap. To that extend, let's take a look at what the New York State Attorney General's finance bureau approved this years versus 2015. During the first three quarters of 2016, 4,869 condo units across 188 buildings have been approved for a total offering price of $10.92B. During the same period last year 4,995 condo units across 187 building (pretty the same numbers) had been approved for a total of offering price of $16.64B – a 34% drop! Focusing on Manhattan, we find that 2,014 vs 2,908 condo units were approved for a total offering price of $7.8B vs $14.4B. That's another 30% drop in accepted supply and 46% in asking sales volume!

With the condo pipeline peaking in 2015 at 16,458 units, we can hear the most pessimistic analysts chanting a 5-6 years of excess supply in the current New York real estate market. There is no need to take sides when numbers speak for themselves, and as we put this one into perspective, this 16,458 units are a 1/3 less than the pipeline at the beginning of 2007 when 25,986 units were in the pipeline. One of the most significant differences between these 2 cycles is the size of the units that came on the market. In the recent years, developers have bet on larger size apartments compared to pre-2008 cycle, and this no wonder why we have an average of 71.5 units/condo project in Manhattan compared to 88 per plan back in 2007. Basically, at this rate the condo pipeline at the end of 2015 would have represented over 20,000 units (vs 16,458 actual).

Now that the balance of negotiating power have switched hands to the buyer side, it is now worth the efforts for prospective buyers who stayed on the side line these past years to step forward and take advantage of this dynamic. The last concessions I experienced in New Development were when I started back in 2013; and then, nothing; until now, as we see negotiability on pricing and closing terms re-appearing across the market with the exception of a couple of sites. Also, it is worth to keep in mind that the New York market is dominated by renter occupied apartments. The current excess supply of luxury rental units have pushed landlords to offer more incentives, but a renter would still be facing a potential rent increase when the market turns, and won't have the tax advantages that a real estate ownership brings, which in itself could possibly offset the landlord's 1 or 2 months free rent incentives on a 18-24 months lease.

2019 L Train Shutdown scheduled: "Hello South Williamsburg"

Last July, the MTA announced the complete shutdown of the L train between 8th Avenue station (Chelsea) and Bedford Avenue Station (1st stop in Williamsburg) starting in 2019 for 18 months! The L train will still operate normally between Bedford Avenue and Canarsie-Rockaway Pkwy. This shutdown comes as the damages caused by 2012 Hurricane Sandy which flooded the tunnel with millions of gallons of salted water will need to be permanently fixed to operate the L train properly. In today's numbers, this shutdown would affect 225,000 people commuting daily between Brooklyn and Manhattan, making almost 50% of the total daily ridership (400,000). The L train rides along the most developed part of Williamsburg where Real Estate price have surged, and retails have flourished with the notable addition of Whole Food and Equinox on Bedford Avenue, a clear sign of the "embourgeoisement" of the neighborhood. The L train peak hours commute is one of the worst across the boroughs, and depending on it to go to work will soon become a real problem. Not only a practical one for commuters who could eventually bounced on the G train, but a financial one for sellers and prospective buyers in this neighborhood. My advice for buyers and renters looking to enjoy the perks of Williamsburg's lifestyle minus the L train dependence, is to go South (below Grand Street) closing on Peter Luger steakhouse, Miss Favela Brazilian bar/restaurant, or exquisite Aurora's Italian gem just a block away from the fantastic Columbian Devocion coffee brewery. There, the environment is quieter yet vibrant, real estate more reasonably priced but growing fast (condos have appreciated over 50% the past 3-5 years) and there are 3 lines of subway available (J,M,Z) which deserves downtown Manhattan (J,Z) and the 6th Avenue Corridor (M) with instant connections to other trains along the way. Despite a steep appreciation over the past 5 years, the neighborhood trades at a discount compared to North Williamsburg. New Developments such as the Williamsberry or The Oosten trade at 20-25% less than North Williamsburg New Developments such as Austin Nichols House at 184 kent Avenue. The exception is 190 South 1st Street. which trades at par around $1,500/ft as it is a premium product by ODA architects with a 15-year tax abatement.

Two/Two Under Two:

This quarter market focus is on the ***2-bed/2-baths under $2M in Manhattan below 96th Street***. This is one of the most sought after apartment configuration/price point but with a low inventory combined with larger size units that have mostly filled the market (1,400sf + at $1,500/ft +), this segment is suffering a lack of supply. From the table below, the current condo inventory of available units accounts for only 246 units or just 10% of the total resale condo market in Manhattan. We can also notice that this market segment is trading at a 15% discount on an average price per square foot basis when compared to the Manhattan resale condo market. The Upper West Side is showing the lowest amount of available apartments with only 18 units, and comes up as the most expensive of all with an average price per square feet of 1,538/sf but with the lowest average monthly carrying costs ($2,151). Across the Park, With a 1/3rd of the units located in the Yorkville neighborhood, the Upper East Side which carries the lowest price per square foot ($1,464/sf) may experience a better appreciation with the future addition of the 2nd Avenue Subway.

	Downtown	Midtown	Upper West Side	Upper East Side	Manhattan Resale Condo
Available Units	79	101	18	48	2,454
Average Price	$1,709,468	$1,691,161	$1,776,278	$1,690,500	$2,053,000
Median Price	$1,750,000	$1,749,900	$1,795,000	$1,750,000	$1,393,000
Average Surface	1,176	1,157	1,165	1,166	1,177
Average ppsf	$1,468	$1,479	$1,538	$1,464	$1,744
Average Carrying Cost	$2,450	$2,459	$2,151	$2,564	N/A

In the buoyant Downtown market, over 50% of the inventory was in the Financial District/Battery Park City area with only 1 unit in Flatiron and 4 in Chelsea. Finally, the Midtown market found over 30% of the units on the Hell's Kitchen/Midtown West, an area that could substantially benefit from the upcoming and exciting Hudson Yard development.