MARKET TRENDS & REPORTS

Manhattan's Housing Market, A Surprising Recovery

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Introduction

Manhattan's housing market has made a surprising recovery this year. At the end of last year, a cataclysmic terrorist attack, and ongoing weaknesses in the economy and the stock market suggested a 2002 that would be characterized by lower prices and lower sales volume. This has not been the case. In the following memorandum, we examine average sale prices, listing availability and specific transactions to understand and convey our observations about the current market place. We speculate, with limited authority, on why our market has recovered so rapidly. Our sources are broad and include our own statistics and sales, those of other companies, and published sources.

The Brown Harris Stevens Cooperative Index
January 1,1988 – May 3, 2002

	Total	2-2.5	3-3.5	4-5	6	7-8	9+
1988	$1,025,146	$154,818	$299,565	$578,527	$1,022,151	$1,422,532	$2,812,964
1989	$1,007,466	$177,235	$296,932	$593,039	$881,874	$1,507,612	$2,845,191
1990	$939,415	$160,067	$285,873	$500,840	$988,831	$1,276,780	$2,557,283
1991	$839,590	$106,682	$244,833	$447,141	$674,129	$1,022,794	$2,128,816
1992	$882,633	$101,452	$222,824	$484,187	$668,784	$1,131,942	$2,234,590
1993	$866,637	$90,875	$193,705	$419,007	$682,010	$1,045,303	$2,328,883
1994	$888,230	$110,161	$209,145	$470,872	$705,107	$1,074,700	$2,539,367
1995	$847,396	$101,387	$207,295	$481,884	$724,081	$1,291,577	$2,257,817
1996	$833,147	$91,122	$236,578	$502,546	$816,131	$1,225,166	$2,612,706
1997	$1,063,134	$129,023	$254,304	$542,404	$969,226	$1,585,826	$3,307,119
1998	$1,168,662	$135,559	$336,983	$618,915	$1,048,115	$1,831,957	$3,567,234
1999	$1,411,756	$154,471	$375,161	$727,164	$1,252,982	$1,997,380	$4,691,113
2000	$1,820,666	$187,045	$441,288	$913,061	$1,465,079	$2,554,944	$6,555,082
2001	$1,751,879	$255,138	$474,712	$1,020,082	$1,533,831	$2,848,299	$5,579,754
2002	$1,660,122	$241,833	$486,091	$1,038,932	$1,850,306	$2,614,943	$4,312,917

This index is an average of cooperative prices in Brown Harris Stevens' prime uptown market areas, including the Upper East Side, from Fifth to Third Avenues, Central Park West, and selected addresses on or near Gracie Mansion, Sutton Place and Beekman Place.

Generally the index indicates that average prices were higher in 2001 than they were in 2000, even though economic and investment conditions had begun to deteriorate in 2000. The sole exception was the average price for the largest, 9+ room apartments.

Price indexes, compiled by other sources, indicate a similar pattern. Average cooperative prices, compiled by Miller Samuel, a Manhattan appraisal company, also indicate higher 2001 averages, again with the exception of the largest, 4+ bedroom, apartments. Miller Samuel's average condominium prices, also for Manhattan, indicate higher 2001 averages in every apartment-size category. [1] Quarterly reports prepared by the Real Estate Board of New York indicate that average cooperative prices in the fourth quarter of 2001, were higher than in the fourth quarter of 2000, and were higher than in the first three quarters of 2001. This was true for all size categories. [2]

Some, but not all average prices declined in the first four months of this year. This is based on an updating of the Brown Harris Stevens Cooperative Index. The averages are based on 112 sales. Although each size-category average is based on very limited data, it is interesting to note that the lower figures were for the 2-2.5, 7-8 and 9+ room categories. For the three remaining size categories, the averages were slightly higher. Miller Samuel's first quarter 2002 results also indicate lower cooperative and condominium averages than in the last quarter of 2001, although the condominium average was higher than a year earlier.[3]

This year's closed sales are likely to have been negotiated at the end of 2001, which is to say that they reflect the psychological impact of the World Trade Center attacks. Our expectation was that the averages would be even lower. In an earlier analysis we indicated that some, but not all prices were renegotiated or lowered following the attack,[4] but the impact of the attack was more on sale volume than it was on price. This year market activity has been much stronger.

Sales Volume

Market activity is measured both by sale prices and by sales volume. Although prices were still rising through much of 2001, sales volume declined. The decline in volume reflected, in part the impact of a weaker economy and a lackluster stock market. The volume of sales declined sharply in the months following the World Trade Center attack. ***In the first quarter of 2002, sales volume increased markedly, but the emphasis was on lower-priced property***. ***April figures indicate a significant increase in the sales volume of highly-priced property.***

Our best indicators of volume are the numbers of transactions negotiated by our firm, and by an affiliated firm, the Halstead Property Company. At Brown Harris, the volume of newly negotiated transactions was about 13% lower in 2001 than in 2000. At Halstead, the decline in negotiated transactions was only 2%. Brown Harris had an average transaction price of about $1,600,000 in 2001. Halstead's average uptown sale prices were under $1,000,000.

Indeed, the decline in sale volume late last year appears to have been most pronounced for the largest apartments. In an earlier analysis of December sale transactions at Brown Harris, we discovered that our brokers had negotiated fewer than half as many deals over $1,000,000 in December 2001 as in December 2000 and had fewer than half as many of these deals pending.

These figures are not precisely paralleled by Miller Samuel's data for Manhattan as a whole.[5] Miller Samuel indicates that Manhattan's cooperative sales volume dropped 14% to 4,470 transactions in 2001.[6] Declines in volume were noted in every apartment-size range excepting two-bedroom apartments. The decline was most pronounced for the largest 4+ bedroom apartments (31%).

This year, sale volume has picked up dramatically. At Brown Harris Stevens, in the first quarter of this year, the number of negotiated transactions was over 70% higher than in the first quarter of 2001. In April, the volume was 80% higher. However, the average sale price has frequently been much lower. In rounded

However, the average sale price has frequently been much lower. In rounded numbers, the March 2002 average was $1,300,000 compared to $2,000,000 in March 2001. In January 2002, the average was $1,200,000, versus $1,900,000 a year earlier. For the two Februarys averages were approximately the same. For April, the averages were also approximately the same.

Until recently averages reflect a large increase in sales under $1,000,000 and declining volume of the most highly priced apartments. At the end of March 2002, the number of new and pending deals priced from $1,000,000 to $2,999,999 was virtually unchanged from a year earlier. The number of transactions priced at $3,000,000 or more had fallen by 31%. The strength of this market was in the "lower" price ranges. ***Our April sales figures, however, indicate a substantial strengthening at the upper end of the market.*** The number of newly negotiated transactions priced from $1,000,000 to $2,999,000 is more than double that of the previous April, and the number of newly negotiated transactions at $3,000,000 or more has increased by 50%.

Availability

Generally, this year has seen a decline in listing inventory[7] in our markets. These declines indicate a recovery following the market impact of September 11th, but for many types of property, they also indicate a recovery from the inventory build-up that preceded September 11. In many categories that we monitor, inventory levels now approximate that of the first few months of last year; in others it is lesser or greater. None of these trends is uniform or consistent.

- The number of pre and post-war cooperative listings on the Upper East Side has dropped by 39% since the beginning of January. Inventory in this category increased steadily during 2001, from 345 listings at the beginning of January to 595 listings at the beginning of December. Current inventory now approximates that of early 2001.

- The number of 3-3.5 room post-war listings on the Upper East Side has decreased this year, from 42 to 18, or by 57%. Last year inventory in this category grew from 33 in January to 50 in July, dropped in September and October, and was at 53 listings in December. As these figures indicate, availability is now lesser than it was at the beginning of last year.

- The number of 6-room pre-war apartments on the Upper East Side has dropped from 59 to 39, since January, or by 34%. Last year inventory in this category increased from 29 to 69 listings. Availability is still greater than it was at the beginning of last year.

- The number of 7-8 room pre-war apartments on the Upper East Side has dropped from 83 to 45, or by 46%. Last January there were 36 of these listings; last February there were 48; in July there were 57; in December, 89.

- The number of available 7-8 room pre-war apartments on Central Park West has dropped from 14 to 11, or 21%. There are fewer of these apartments available than there were last January.

- The number of pre-war sixes on West End Avenue and Riverside

The number of pre-war sixes on West End Avenue and Riverside Drive has declined from 19 to 14, since January, or by 26%. There were 10 of these listings at the beginning of January 2001, 14 at the beginning of March, and 27 at the beginning of December.

- The number of available condominium lofts has dropped by 31% since January. There are fewer of these lofts available than during any month last year.

- The number of 4-5 room apartments listed in the Village, Chelsea and Gramercy neighborhoods has declined from 147 to 85, or by 42%. Last January there were 109 of these apartments available; in June there were 130 listings; in October there were 99; at the beginning of December there were 165 four-to-five room listings.

- As of May 1, 2002, there are 69 cooperative lofts available, in the Village, Chelsea and Gramercy.[8] There were 102 of these listings at the beginning of October 2001, immediately following the World Trade Center attack, but the number of these listings quickly fell back to 75 at the beginning of November. Availability in this category has varied from 67 to 87 listings since the beginning of last year (with the exception of October).

Specific Deals Indicate a Strong Market, But at Higher Prices?

Some prices suffered following September 11th, but the consensus now, is that the market has recovered. Recently negotiated deals confirm a very strong market, but not necessarily at higher prices. The pattern of pricing is variable, reflecting the complexity and imperfection inherent to our market and does not necessarily parallel the patterns we see in sales volume. Although the pricing of very expensive apartments appears to be relatively stable, apartments under $1,000,000 are not necessarily appreciating relative to values prior to September 11th of last year.

Our information from this section comes from partly from our research, into recent sales that match with "identical" sales last year, and partly from conversations, regarding specific deals, with Brown Harris brokers.

Some prices, of smaller apartments, may be viewed as lower or higher than last year (pre September 11th), depending on the comparison. One of our brokers indicates that she listed an East 70's pre-war studio cooperative in late September for $229,000, but pulled it from the market in November, due to lack of activity. It was re-offered at $199,000 in February 2002, and received a full-price offer, which was subsequently overbid to $210,000. A contract was signed last month. A larger studio, on the same floor, in lesser condition, sold last year, for $220,000, suggesting that prices are now lower. Another renovated studio, in the same line, but on a higher floor, was last asking $180,000 before closing last year. This price suggests current appreciation.

Some brokers indicated, more clearly, that prices are now lower. An offer has been accepted for a large post-war one-bedroom apartment, in the East 20's, in the high $300,000's. The broker indicated, clearly, that it could have sold for over $400,000, early last year.

Other sales of smaller apartments more clearly indicate appreciation. In an older, post-war condominium, located in the East 60's, a contract has been signed for sale of a large, 7th floor, one-bedroom apartment at about $560,000. A more highly renovated apartment, in the same line, but on the 10th floor, sold in February 2001 for only $525,000.

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In a higher price range, the prices again vary with the property-type. In a relatively new condominium, near Lincoln Center, a sale was negotiated in March, for the sale of a smaller, 1,100 square foot, two-bedroom apartment. The negotiated price was just under $1,300,000. In August, two apartments on slightly, but not materially higher floors, in the same line, sold at $1,312,500 and $1,400,000. The newest price is not markedly lower, but it is lower.

At an older, but prestigious mid-town condominium, a two-bedroom apartment was listed on March 5 at $1,650,000. A sale was negotiated within a few weeks. Large two-bedroom condominium apartments, with nearly 2,000 square feet, are hard to find at less than $2,000,000, and the demand for apartments in this line, exceeds availability. Two similar apartments, on lower, but not markedly lower floors, sold in June of 2001 at $1,445,000 and $1,300,000.

Some of the strongest demand appears to be for certain “modestly priced” family apartments on West End Avenue and Riverside Drive. A contract was signed in early April for the sale of a 5-room, two-bedroom apartment in a popular West 70’s post-war building. The apartment was listed at $825,000, and there were three offers. The contract price is in the high $800,000’s. The listing brokers indicated that pre-September, last year, the apartment would have been listed for less than $800,000.

Only the multi-million dollar sales seem to indicate a pattern of stability.[9]

A large terraced duplex, on Park Avenue, sold last summer at $3,850,000. It needed work, and was partially renovated when it resold in April 2002 at $4,050,000. We do not how much was spent on the renovation.

On upper Fifth Avenue, a very large six-room apartment has a deal in the mid-$3,000,000’s. It faces south, to the side street, but with some Park and Guggenheim views from the kitchen. The broker indicates that the price would have been the same, or only slightly lower, last year.

In the East 70’s, a large full-floor, pre-war apartment has a signed contract in the upper $6,000,000’s. It has been highly renovated. The same apartment, one floor higher in the same building, but in un-renovated condition, sold in May 2001 for about $500,000 less. In this case the premium for condition seems low, relative to the cost of renovation.

A contract in the mid $5,000,000’s has been signed for the sale of a large pre-war apartment on Central Park West. The apartment is architecturally distinguished, but has not been renovated. A similar apartment, in the same building, sold last year at $5,500,000. This apartment had one less bedroom.

Why has the Market Recovered So Rapidly?

Newspapers indicate that the real estate market recovery is not just a Manhattan phenomenon. In March, a Palm Springs paper reported that the “number of previously owned homes sold in California hit an all-time high in February, jumping 25.5% from a year earlier and lifting prices by a robust 19.8%”. [10] The San Francisco Chronicle reported that the number of Bay Area homes sold in February 2002, was 21.1% greater than in February 2001, although the median price was 2.1% lower. [11] Even in Stamford, New York, the tiny, charming, but economically depressed, upstate village that I frequent, homes are selling. A large mansion built prior to World War I and on the market for years, sold just a few months ago, in the low $200,000’s. A small abandoned church on Main Street, asking $50,000, sold, seemingly in a month or two, to a sculptor from Manhattan.

This is the type of small town where houses typically take many months, or even a year-or-more to sell.

Much of the recovery is defined relative to the last quarter of 2001. Our housing market froze following September 11th, and sales volume declined markedly in the following months. Absent further attacks, a recovery was predictable, but a rebound of this magnitude was not easily foreseen. Some of the analyses that we read offer a reasonable basis for interpreting the differences between the $1,000,000+ and the $1,000,000- markets. Low interest rates, for example, are a plausible explanation for the strength of the under $1,000,000 market. Weak stock prices, and a delayed Wall Street recovery are plausible reasons for the earlier, relative weakness of the upper end of the market.

None of these explanations offers a convincing explanation as to why the market has recovered so completely or why the under-million-dollar market is actually stronger than it was early last year. Low interest rates alone cannot be the reason; interest rates have been low for some time. Other interpretations have been offered, a shift from stocks to housing, a relatively warm winter, even an increasing sense of "home", and of its importance in the post September 11th environment [12]. These explanations are plausible and all may be contributing factors, but none stands alone as the reason for such a strong recovery.

We read frequently that the latest economic recession is ending, but then we read that the recovery may take longer than some suppose. We read that the city faces major budget deficits and service reductions, that corporate profits are still poor, that stock prices are still down, that investors have lost confidence in our reporting systems, and that a Wall Street recovery is not yet underway.

We also read that whatever recovery we are experiencing is largely consumer driven. A housing market recovery does reflect a tremendous desire to consume, a desire to move beyond the vulnerability we felt, following September 11th, and relief, following the relatively rapid "resolution" of the war in Afghanistan. Of course our "war on terrorism" is far from resolved. Nevertheless, we are increasingly inclined to put aside our pessimism, faced with the impressive psychological optimism that characterizes the United States economy.

Larry Sicular
May 3, 2002

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[1] Manhattan Market Report, 1992-2001 Insignia-Douglas Elliman, prepared by Miller Samuel.

[2] Quarterly Cooperative Sales Report, 1st, 2nd, 3rd, and 4th quarters of 2001, Real Estate Board of New York

[3] Manhattan Market Overview, 1st Quarter, 2002, Insignia Douglas Elliman, prepared by Miller Samuel

[4] "The Impact of the World Trade Center Attack on Our Housing Market", October 12, 2001, Larry Sicular, BHS Appraisal & Consulting, LLC.

[5] Ibid. pages 7 & 33

[6] These figures reflect sales data to which Miller Samuel has access.

[7] Listings are defined as active if they have been listed or updated within the three months prior to the update date.

[8] Defined as lofts of at least 1,500 square feet

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[9] Many thanks to John Burger of Brown Harris Stevens, who identified several of these matches for us.

[10] “State’s existing home sales through the roof last month”, The Desert Sun, March 26, 2002, page 1

[11] “Bay real estate market hot again”, The San Francisco Chronicle, March 22, 2002, page B1

[12] “Real Estate is the New Comfort Food”, Donna Olshan, April 15, 2002