BROWN HARRIS STEVENS

Established 1873

Manhattan Residential Market Report

SPRING 2001

Trends in Manhattan's Luxury Housing Market 1988 – 2000

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Overview

In the Immediate

During the first four to five months of 2000, Manhattan housing prices increased impressively. Last year's overall cooperative price in Manhattan's prime neighborhoods was $1,974,497 – 32% higher than it was in 1999. This annual percentage increase was the highest indicated since 1989. However, since the spring of 2000, stock prices have dropped or recovered erratically, and there is recent evidence of a weakening national economy.

The Manhattan housing market responds to external events, and price trends in our market may depend on the eventual direction of the economy. Nevertheless, a recognizable increase in listing inventory is typically necessary before there is pressure to lower prices. A recent survey of our listing system does indicate a recent increase in availability. However, a January 2001 analysis of a limited number of recent transactions suggests that this increase has not been enough to lower prices.

A Longer-Term Perspective

Not just this year, but over the past three to four years, housing price increases have been impressive. The average cooperative price in Manhattan's prime neighborhoods was $1,066,616 in 1997 and, as indicated, increased to $1,974,497 in 2000, an 85% increase. It is worth remembering that the earlier decline in prices was also significant. The average price was only $1,026,784 in 1988, and fell below $900,000 from 1991 to 1996. Over a 12-year period, appreciation has averaged a relatively modest 5.6%. Furthermore, although most of the past decade was characterized by low inflation, average appreciation in most sub-markets lagged the Consumer Price Index until 2000.

Housing price increases have also been relatively modest in light of social and economic changes in New York. Ours is one of a handful of cities that has profited from the expansion of the global economy. It has been argued that the expansion and dispersal of the global economy has heightened the concentration of centralized and specialized functions in cities like New York.[1] Manhattan has had an enormous increase in income, wealth and in the number of wealthy households. Indeed, over the past 12 years, housing prices have not only lagged inflation, but also have not kept up with the impressive increase in affluence.

The Evolution of Taste

The combination of greater affluence and higher prices has influenced a redefinition of luxury or status in housing. Many wealthy households have been departing from older, more established norms, and have been experimenting with newer forms of housing expenditure. Not just price, but a parallel change in taste continues to have an important impact on our market. While relatively few new housing units have been added to the Manhattan market over the past 13 years, most represent a growth in housing stock available to the most privileged. Housing types previously defined as "acceptable" have become increasingly defined as privileged and even luxurious. The concept of sophisticated Manhattan has broadened as wealthy Manhattan experiments with new forms and locations.

Trends in Manhattan's Luxury Housing Market 1988-2000

Cooperative and Condominium Prices and Market Rents

Housing prices have increased markedly during the past five years, but increases during this 13-year cycle have been relatively modest. Even these increases have been dependent on the appreciation of the largest apartments. Prices increased markedly during the early part of last year; however, they appear to have stabilized since the spring. Available listing inventory is still limited, but has increased. Overall, rental rate increases have also been conservative during this cycle.

Manhattan Cooperative Prices Following are 2000 and historical average cooperative prices in our prime market area[2] as well as percentage price changes since 1988.

For the market as a whole, last year's percentage increase in the average cooperative price was higher, at 32%, than in any of the prior 11 years. Indeed, prices were declining or languishing in the early and mid 1990's. The largest apartments, with 9 or more rooms, had the largest indicated increase last year, 39%. The studio average, up 32%, was based on too few sales to be considered reliable. Three-3.5-room and 6-room apartments had the lowest increase in average price last year, "only" 17%.

Over the 13 years of the present real estate cycle, the overall average price has nearly doubled. The 92% increase represents a 5.6% average annual rate of appreciation, a fairly conservative number that is hidden behind the increases of the past few years. The 92% increase has been primarily driven by the 128% average price increase for the largest apartments. Generally, larger size has coincided with a greater rate of appreciation. Breaking this pattern, the average price of 6-room apartments has increased by only 42%.

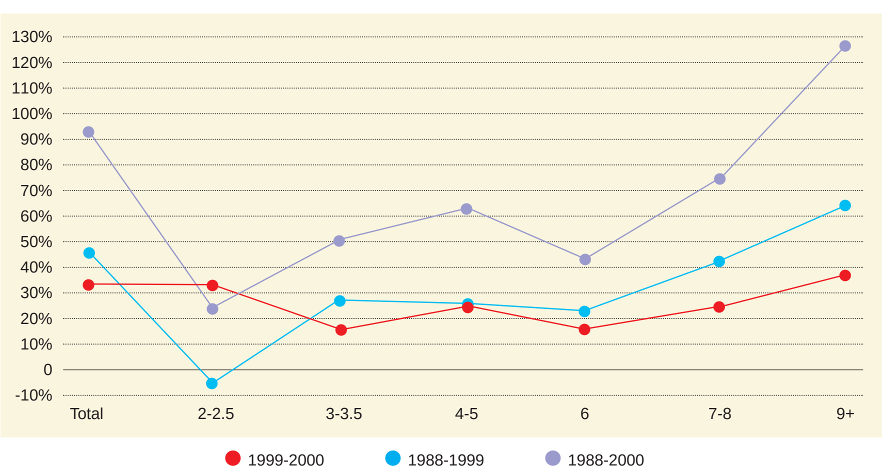
Even the 128% increase for 9+ room apartments represents only a 7.1% average annual increase over the past 12 years. The 75% increase for 7-8-room apartments represents a 4.8% annual rate of return. Smaller apartments, in Manhattan's best neighborhoods, appreciated at a slower rate.

BROWN HARRIS STEVENS COOPERATIVE INDEX

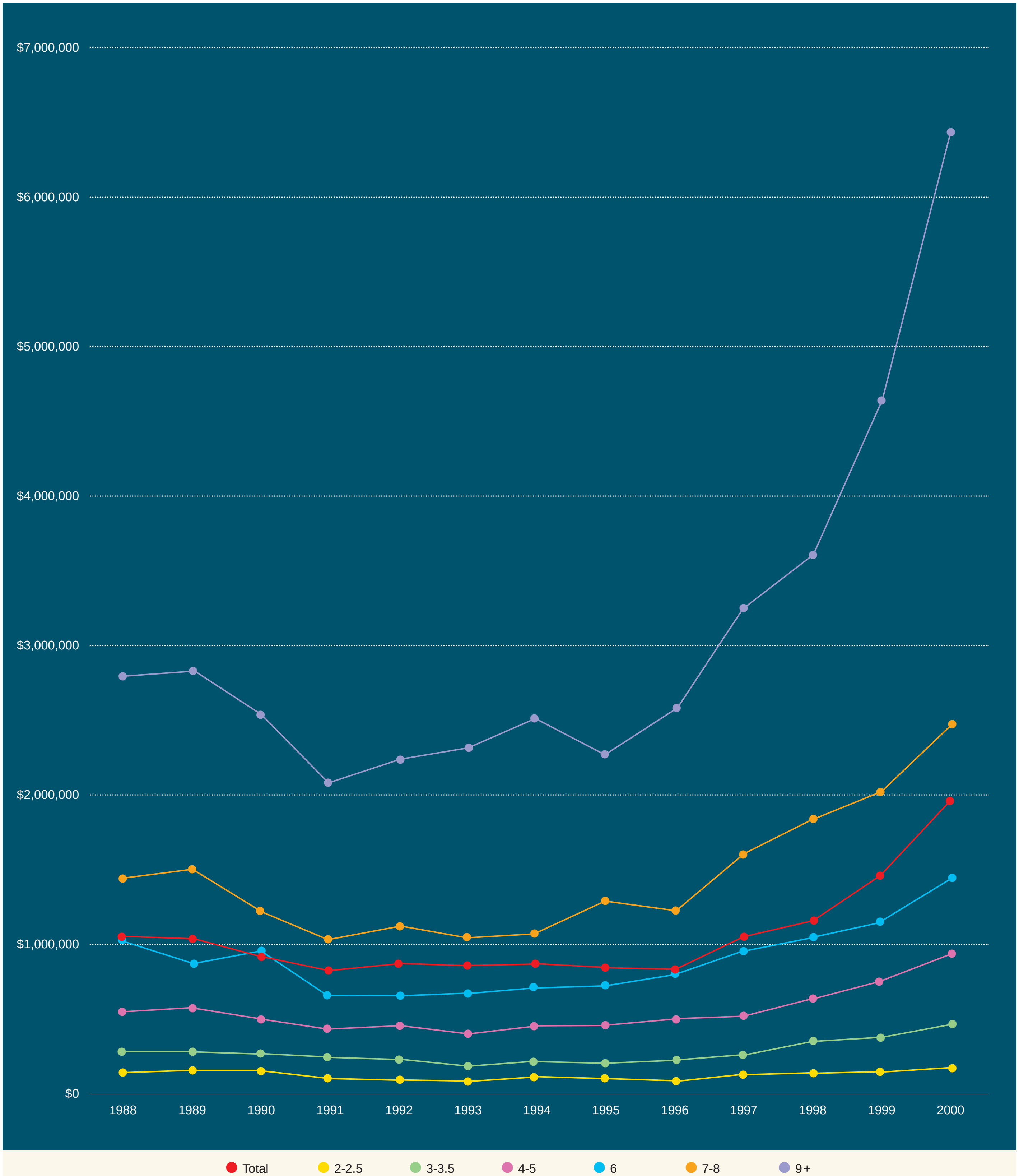
Average Prices at Manhattan's Prime Addresses (1/1/88-12/31/00)

	Total	2-2.5 Room	3-3.5 Room	4-5 Room	6 Room	7-8 Room	9+ Room
1988	$1,026,784	$154,818	$299,565	$578,916	$1,022,151	$1,422,532	$2,812,964
1989	$1,008,600	$177,235	$296,932	$593,704	$ 884,099	$1,510,692	$2,845,191
1990	$ 939,415	$160,067	$285,873	$500,840	$ 988,831	$1,276,780	$2,557,283
1991	$ 838,541	$106,682	$244,833	$447,141	$ 674,129	$1,024,051	$2,128,816
1992	$ 885,186	$ 98,632	$222,824	$484,187	$ 669,995	$1,131,942	$2,234,590
1993	$ 866,928	$ 84,800	$194,191	$419,007	$ 684,528	$1,045,303	$2,328,883
1994	$ 886,341	$110,161	$210,805	$471,747	$ 712,505	$1,076,564	$2,524,944
1995	$ 845,383	$103,586	$208,965	$484,386	$ 725,720	$1,299,505	$2,257,817
1996	$ 834,224	$ 89,826	$239,131	$505,698	$ 815,681	$1,224,505	$2,599,060
1997	$1,066,616	$129,119	$257,155	$550,200	$ 971,001	$1,611,968	$3,323,303
1998	$1,186,295	$137,740	$341,818	$635,847	$1,054,051	$1,840,006	$3,613,567
1999	$1,495,024	$145,424	$386,926	$740,169	$1,241,419	$2,002,539	$4,617,154
2000	$1,974,497	$192,267	$450,802	$936,945	$1,447,432	$2,494,864	$6,405,924

COOPERATIVES, PERCENTAGE PRICE CHANGE SINCE 1988



BROWN HARRIS STEVENS COOPERATIVE INDEX



2-2.5 room apartments are typically studios. 3-3.5 room apartments typically have one bedroom. 4-5 room apartments, two bedrooms; 6 room apartments, two bedrooms, a maid's room and a formal dining room; 7-8 room apartments, two or three bedrooms with one or two maids' rooms and a formal dining room; 9+ room apartments have multiple bedrooms and maids' rooms, a dining room and, often, a library.

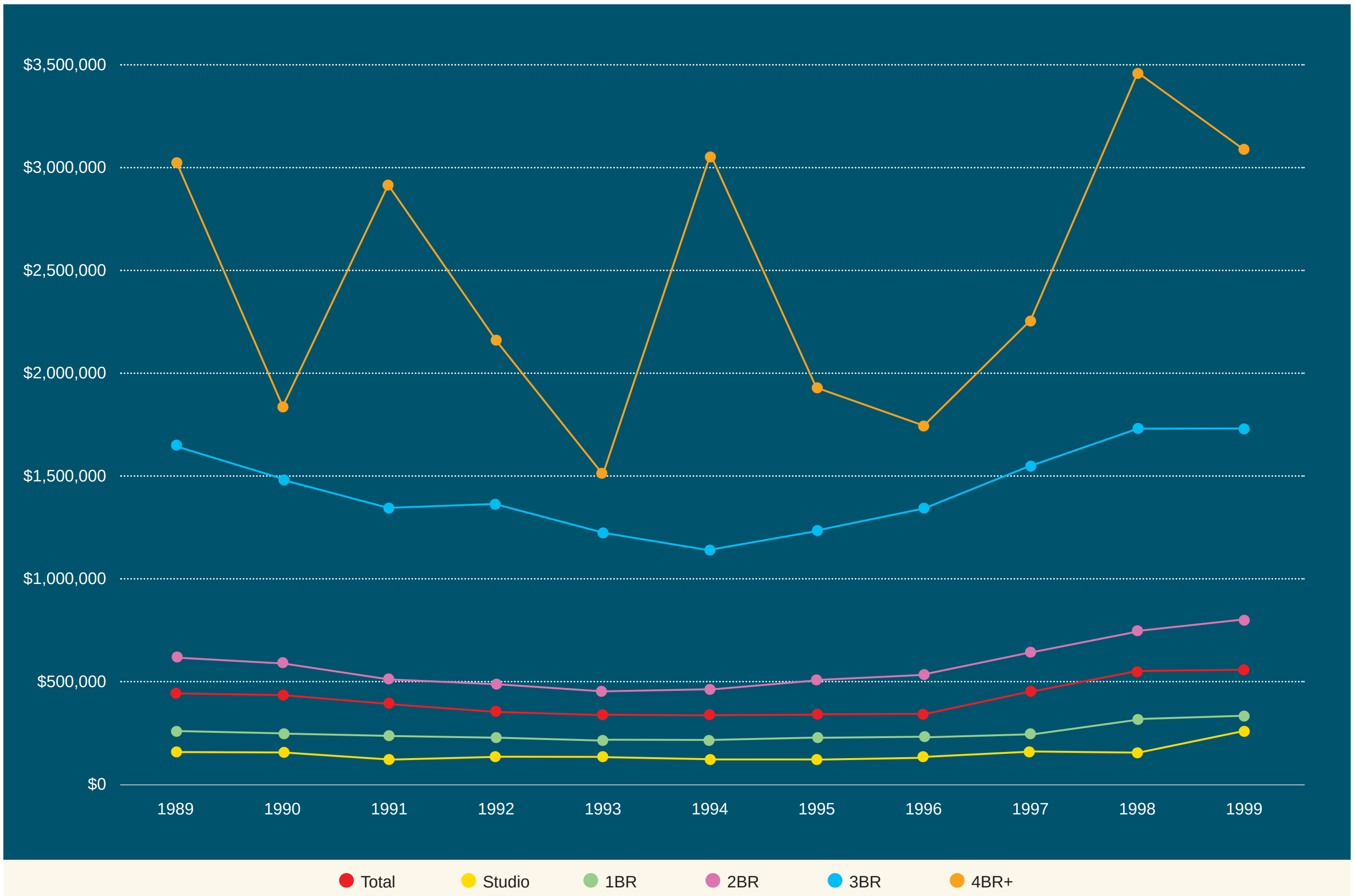
Residential Condominiums Average condominium prices are compiled by Miller Samuel, a Manhattan appraisal firm.[3]

Year-to-date averages for condominiums have not been calculated, but the market as a whole appreciated by only 28% from 1989 to 1999, an average annual rate of 2.5%. However, recent quarterly averages indicate significant appreciation over the past year: 37% from the fourth quarter of 1999 to the fourth quarter of 2000. The average for the largest 4+ bedroom apartments has declined, but is based on too few transactions to be considered reliable.

Assuming that the fourth quarter average of $952,164 is representative of this year's activity, the average annual return would increase to 7%, still a relatively conservative number.

The condominium averages cover a broader

AVERAGE CONDOMINIUM PRICES 1989-1999



	Total	Studio	1 BR	2 BR	3 BR	4 BR+*
1989	$454,549	$186,755	$286,752	$621,210	$1,663,475	$3,011,050
1990	$430,832	$170,254	$263,849	$599,300	$1,495,600	$1,826,428
1991	$403,052	$139,629	$251,908	$509,018	$1,349,435	$2,912,277
1992	$382,408	$143,806	$233,885	$491,037	$1,373,700	$2,188,550
1993	$357,827	$142,267	$208,131	$461,585	$1,215,498	$1,503,900
1994	$356,958	$125,728	$209,485	$482,886	$1,154,172	$3,053,071
1995	$374,608	$120,175	$228,437	$504,985	$1,223,952	$1,928,125
1996	$376,251	$142,407	$236,023	$513,782	$1,344,776	$1,749,000
1997	$489,228	$173,390	$267,689	$646,863	$1,555,856	$2,277,596
1998	$551,368	$161,256	$312,133	$744,869	$1,737,178	$3,473,667
1999	$582,847	$267,732	$331,275	$808,770	$1,738,426	$3,097,308

Source: Miller-Samuel

geographic area than the *Brown Harris Stevens Cooperative Index* and the prices and appreciation rates are not directly comparable.

Growing Availability in the Cooperative and Condominium Markets Our analysis of listings is based on a selected sample of property types and geographic areas in which our sales offices are active. The analysis is completed at the beginning of each month.[4]

The number of available listings remains very limited. At no time since we began tracking listings in April 1999 has our listing system indicated more than 400 active listings on the Upper East Side, between Fifth and Third Avenues.

Still, available cooperative inventory on the Upper East Side was higher at the beginning of January than it was early last year. There were about 40% more listings than in the first quarter of 2000 and about 16% more than in the second quarter. Inventory at the beginning of November and December of 2000 was higher than in January, or for any of the prior months indicated since April 1999.

The availability of cooperative apartments varied by property type and location. There were actually fewer pre-war, 3-3.5 room cooperatives available on the Upper East Side at the beginning of November, December and January than at the beginning of any of the first six months of the year. However, the number of available 6-room, pre-war, apartments averaged 28 for these three months, approximately 55% higher than in the first quarter of 2000. The number of 7-8 room pre-war apartments was 50% higher. The number of 9+ room pre-war apartments was 78% higher.

On Central Park West, the available inventory of 7-8 room cooperative apartments has more than doubled over the first six months of last year; but for the largest apartments, there have been fewer than ten listings since April 1999. On West End Avenue and Riverside Drive, early January's 6-room inventory was actually lower than in the first few months of last year, but greater than in November or December.

Downtown, the availability of cooperative lofts has increased from an average of 56 listings for the first three months of 2000, to 60 or more in November, December and January.

CONDOMINIUM PRICES, PERCENTAGE CHANGE 1989-1999

	Total	Studio	1 BR	2 BR	3 BR	4 BR+*
1989- 1999	28%	43%	16%	30%	5%	3%

CONDOMINIUM PRICES, 4th QUARTER 2000 VS. 4th QUARTER 1999

	Total	Studio	1 BR	2 BR	3 BR	4 BR+*
4th 1999	$695,815	$203,133	$372,302	$ 903,256	$2,239,500	$3,500,000
4th 2000	$952,164	$263,822	$426,669	$1,062,342	$2,692,428	$3,137,833
% change	37%	30%	15%	18%	20%	-10%

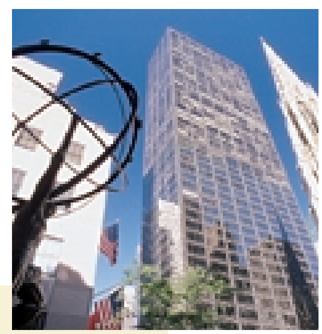
Source: Miller-Samuel

* *The variability of this average is due to the very small number of 4BR+ sales in each year.*

In the condominium market, our system indicated 68 listings on the Upper East Side between 5th and Third Avenues as of January 3, 2001. This is equivalent to the average for the beginning of the first three months of 2000, but it is 38% higher than the second quarter average. In the downtown condominium loft market, there have been over 100 listings available since November 2000. For the first six months of last year, loft inventory averaged only 73 listings.

Of course, none of this addresses the desirability of available inventory. Buyers may still have difficulty finding the apartment they want in this market, but the number of choices has nevertheless increased in a number of categories.

The Most Current Cooperative and Condominium Prices In a memorandum dated January 17, 2001, we analyzed sale prices that were negotiated in the last quarter of 2000.[5] We were able to find 14 examples for which sale prices of similar or identical cooperative or condominium apartments were negotiated in the very strong market of early 2000. While differences in condition and floor height made it difficult to measure price changes – between early and late 2000 – prices appear to have been lower in four cases, the same in five cases, and higher in five cases. Based on this very limited analysis, it is reasonable to conclude that prices in the luxury market have been relatively stable. We note, however, that our conclusions were a bit more positive when we prepared a similar memorandum in October 2000.



Buyers may still have difficulty finding the apartment they want in this market, but the number of choices has nevertheless increased in a number of categories.

Over the past 12 years, average rental appreciation rates have been relatively conservative.

MARKET RENTS Market rental data is provided by our affiliate Feathered Nest. The averages for doorman, non-regulated apartments indicates a pattern similar to that for cooperatives and condominiums: price decline in the early 1990's, followed by appreciation in the mid and late 1990's.

Over the past 12 years, average rental appreciation rates have also been relatively conservative. Downtown studios have had the most appreciation, 98% over 12 years; yet this represents only a 5.9% annual rate of increase.

COMPARISON OF THE MARKET RENTAL, COOPERATIVE AND CONDOMINIUM MARKETS Comparison of the market rental, cooperative and condominium markets is weakened by differences in geography, building types and time periods measured. Nevertheless, it is interesting to note that in the early 1990's the percentage decrease in average rents was lower, in percentage terms, than the decline in prices – perhaps because many households chose to rent rather than to purchase. Conversely, the increase in rental rates in the mid and late 1990's generally exceeded that of condominium and cooperative prices, through 1999. This advantage disappeared in 2000, but the appreciation of rental units was still comparable to that of owned apartments in many categories. A glaring exception is the appreciation of the largest cooperatives, which was much greater than for the largest rental apartments. Prices for large, new condominiums would also support this distinction. On the other hand, appreciation of the largest rental apartments appears to have lagged.

The Growth in Affluence

Price changes may be viewed against the broader social and economic changes which determine them. The impetus for higher housing prices in New York has been the economic success of certain specialized industries – primarily finance – resulting in higher income, wages and wealth for a larger number of affluent employees and households.

NEW YORK, A FORTUNATE CITY The privileged status of New York City is analyzed by Saskia Sassen in her book, *The Global City*, where she argues that a spatial dispersion of economic activities, including manufacturing and routine office work, and the reorganization of the financial industry have led to new forms of centralization:

"In other words, while in principle the territorial dispersal of current economic activity in recent years could have been accompanied by a corresponding decentralization in ownership and hence in the appropriation of profits, there has been little movement in that direction." . . . "The 'things' a global city makes are services and financial goods."[6]

The services Ms. Sassen refers to are producer services such as law, management consulting, advertising and accounting, all of which are increasingly specialized and produced by specialized firms. These growth industries, which rely on a large proportion highly educated workers, tend to be characterized by high concentrations of both highly and lowly paid jobs.

THE SHIFT IN EMPLOYMENT While much of what we read focuses on lost employment in the early 1990's and its recapture over the past few years, there has been relatively little overall employment growth in New York City since 1960, or since the peak of the last real estate cycle in 1988. In October 2000 total employment – 3,736,900 jobs – was only 7% higher than in 1960 and only 5% higher than in 1988.[7]

What has changed radically is the distribution of employment to services and finance, insurance and real estate – away from manufacturing, trade, transportation and public utilities. Since 1960, the single largest subcategory increase has been the 261% increase in employment for security and commodity brokers, a highly paid subcategory of the FIRE sector. Less up-to-date data for computer and data processing services, a sub-sector of business services, indicates a 101% increase from 1988 to June 1999.

HIGHER WAGES The state's most recent annual average wage for New York City is $55,789 for 1999, an increase of 76% since 1988. Inflation was only 43% from 1988 to 1999, indicating a "real" wage increase of approximately 33% over ten years.

AVERAGE RENTS IN DOORMAN, NON-STABILIZED BUILDINGS

	UES-STU	UWS-STU	DWT-STU	UES-1BR	UWS-1BR	DWT-1BR	UES-2BR	UWS-2BR	DWT-2BR	UES-3BR	UWS-3BR
1988	$1,250	$1,225	$1,125	$1,800	$1,725	$1,675	$3,150	$2,725	$2,325	$4,850	$4,575
1990	$1,125	$1,125	$1,250	$1,775	$1,600	$1,650	$2,950	$2,450	$2,850	$4,325	$4,050
1992	$1,100	$1,150	$1,100	$1,675	$1,550	$1,625	$2,700	$2,400	$3,025	$4,025	$3,500
1994	$1,300	$1,250	–	$1,825	$1,850	$1,700	$2,975	$3,100	$2,725	$4,375	$3,775
1996	$1,375	$1,450	–	$2,150	$2,150	$2,150	$3,525	$3,700	$3,700	$4,925	$5,400
1998	$1,800	$1,700	$1,700	$2,525	$2,625	$2,475	$3,775	$3,825	$3,550	$5,800	$5,850
1999	$2,175	$1,850	$1,750	$2,700	$2,725	$2,400	$4,125	$4,075	$3,750	$5,850	$5,125
2000	$2,300	$1,925	$2,225	$3,000	$3,000	$2,750	$4,800	$4,600	$4,275	$6,850	$5,925
%ch. 99-00	6%	4%	27%	11%	10%	15%	16%	13%	14%	17%	16%
%ch. 88-99	74%	51%	56%	50%	58%	43%	31%	50%	61%	21%	12%
%ch. 88-00	84%	57%	98%	67%	74%	64%	52%	69%	84%	41%	30%

Source: Feathered Nest

The impetus for higher housing prices in New York is the economic success of certain specialized industries – primarily finance – resulting in higher income, wages and wealth for a larger number of affluent employees and households.

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The increase in wages has favored those who are already well paid. Wages in the finance industry have been particularly favored. The average wage of security and commodity brokers was $194,597 in 1999, an increase of 148% since 1988. For employees of holding and investment companies, the average wage was $171,525, an increase of 142%. The shrinking banking sector showed the largest percentage increase, 166% to $107,939. There has also been high wage growth in some well-paid sub-sectors of manufacturing, such as chemicals, and electrical and electronic equipment. In a few cases there has been above-average wage growth in more modestly paid sectors, including leather (87% to $33,388) and business services (84% to $49,749). However, the rapidly growing service sector has generally had below-average wage growth. Wages in health services have grown by only 48%, to $40,121; in education by only 59%, to $34,062; and in personal services by only 31%, to $20,178. Even the relatively well-paid legal services sector has had relatively unimpressive wage growth of 68%, to $76,445, from 1988 to 1999.

Overall, there has been an enormous increase in the number of employees in well-paid sectors. Defining affluence as an average wage of $100,000 in 1988, only one sector would have qualified – metal mining, with just 372 employees. After adjusting this wage for inflation, affluence would have been defined as a wage in excess of $143,000 in 1999. Over these 11 years there was a massive increase to 187,116 “affluent” employees. Virtually all were financiers, 168,764 security and commodity brokers and 17,376 employees of holding and investment companies. The remaining 976 employees were in the mining, oil and gas, or tobacco sectors.

Housing Prices Have Not Kept up with Wage Increases The 76% average increase in wages from 1988 to 1999 is higher than the average price increase for most categories of the housing market. We have already indicated that the average cooperative price has increased by 92% over a longer period (through 2000), but only the largest 7-8 and 9+ room apartments matched or exceeded an appreciation of 70%. In the condominium market, no category except the largest apartments increased at anything near to 70%. Only in the rental market have prices in some smaller size categories exceeded 70%, and these increases were over an 11.5 rather than a ten-year period. Average wage increases for the well paid show an even greater contrast with the housing market. Increases of 148% and 142% over a ten-year period exceeded price increases for the largest cooperative apartments – 128% over a 12-year period.

More Affluent Households The explosion in wages at the upper end of the earnings spectrum has created a parallel increase in the number of affluent households.[8]

Two sources, the *Polk Company/DemographicsNow* and *CACI,* indicate that Manhattan has a higher percentage of affluent households than either the MSA or the nation. For example, Polk estimates that 15.1% of Manhattan households earned over $150,000 in 2000, compared with 7.2% in the New York metropolitan statistical area (MSA) and 3.85% for the nation. The CACI estimate is 11.75% for Manhattan, 5.78% in the MSA, and 3.53% in the nation.

Both companies associate higher growth rates with this higher income. CACI estimates an 82% increase in the number of households earning over $150,000 in Manhattan since the last census. Polk estimates a 135% increase. In absolute numbers, CACI estimates an increase of 40,096 households in this bracket, while Polk estimates 65,000.

These numbers are impressive, but the growth rates are less than for the MSA or the nation as a whole. Since the last census, CACI estimates a 91% increase in the number of high-earning households in the MSA, while Polk estimates 140%. For the nation, CACI estimates 153% and Polk estimates 180%.

Greater Wealth Income and wages do not measure wealth, and wealth is an important factor in Manhattan’s housing market.

Despite last year’s uncertainty, the stock market, as measured by the Dow Jones Industrial Average, increased by 397% from 1988 to 2000[9]. Many Manhattan households have benefited from economic growth in this cycle, not only with higher incomes, but also with greater wealth. Following are comments of Arthur Kennickel, a Federal Reserve economist, on the sources of increased wealth nationwide from 1995 to 1998:

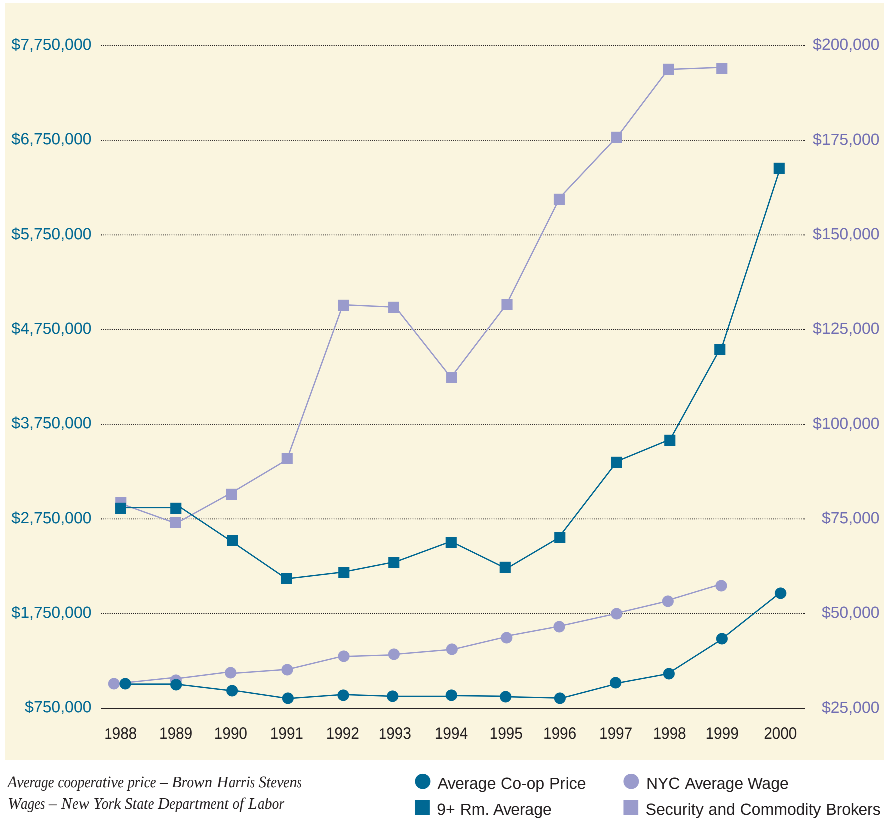
"For the bottom 90% of the net worth distribution, principal residences are the most important asset overall. There has been an increasing prevalence of stock ownership among these households, but because these holdings are still relatively small, they have contributed only about half as much to the overall increase in net worth as has the increased value of principal residences. For the top 10% of the wealth distribution, wealth gains were largely driven by increased holdings of stock and business assets."[10]

Comments on the Growth in Affluence Our analysis of employment and wages for New York City indicates a significant increase in affluence since the end of the last real estate cycle in 1988. This increase parallels growth in highly paid financial service occupations, supporting Ms. Sassen's analysis. The growth in highly paid producer service occupations is not indicated by state employment data, possibly because these are hidden in more broadly defined categories.

Estimates of household income in Manhattan also indicate a high percentage of affluent households in Manhattan, and a significant increase in the number of these households since 1989. Many of the same households have also seen a significant increase in wealth.

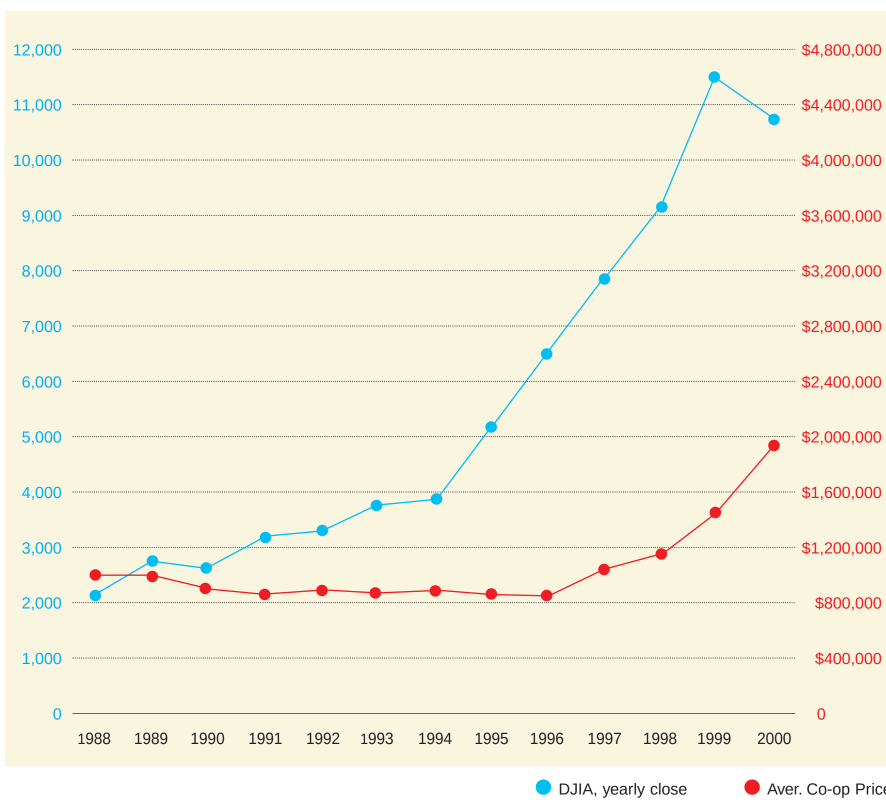
Available data points to the importance of equities to this cycle's wealth. Virtually all of the increase in "affluent" employment has been of security and commodity brokers, while nationwide, greater wealth among upper income households has been due to the increased value of their holdings in business and financial assets. It is not difficult to conclude that the health of Manhattan's luxury housing market is very dependent on the health of financial markets. This is true despite diversification into "new media", since the most highly paid in this sector earn, or were earning, their wealth through stock or stock options. The dependence on financial markets in New York is certainly more acute than elsewhere, since both investment and employment in New York are heavily Wall Street based.

WAGES VS. COOPERATIVE HOUSING PRICES



Average cooperative price – Brown Harris Stevens
Wages – New York State Department of Labor

THE DOW JONES INDUSTRIAL AVERAGE VS. THE AVERAGE COOPERATIVE PRICE



Inflation

During the 1970's and 1980's, inflation favored the housing market. This real estate cycle has been characterized by low inflation and by a lesser emphasis on real estate as an investment. Nevertheless, even in the low-inflationary environment of 1988 to 2000, the local consumer price index has increased by 47.5%.

On the following table, the average cooperative price has been adjusted for changes in the consumer price index. As the table indicates, the inflation-adjusted average price did not match its 1988 level until 1999. On the other hand "real" appreciation in 2000 was significant. Of the various apartment-size categories, only the average values for the largest apartments would have exceeded these percentages. Analysis of condominium and rental prices would produce similar results.

Prices Have Not Kept Pace with Affluence, but Housing is Considered to be Expensive

Our prior analysis indicates that prices and rents have not kept up with the increases in wages or financial wealth, and have not increased impressively relative to inflation. Nevertheless, the rapid price increases of the past few years have created a perception that the market is expensive, even overvalued. Certainly the luxury housing market may respond to losses in the stock market, or to a slowing in the economy, but this is because equities and income have been the primary sources of this market's increase in wealth, not because luxury housing is fundamentally over priced relative to the income and wealth that has been created.

The reason that housing prices have not kept pace is intuitively simple. In the inflationary environment of the 1970's and 1980's, real estate was the preferred investment. Since 1988, equities have been the preferred investment, and apartment prices have been, relatively, the reward rather than the source of wealth. Consequently, apartment prices are perceived as high in an environment where real estate is perceived as having less value.

While prices have not kept pace with income or affluence, there has been a substantial change in the number of people or households with money. Arguably, relative to 1988, there are now more

CONSUMER PRICE INDEX — ALL URBAN CONSUMERS

NY, Northern NJ, Long Island

Base Period: 1982-84, Not Seasonally Adjusted

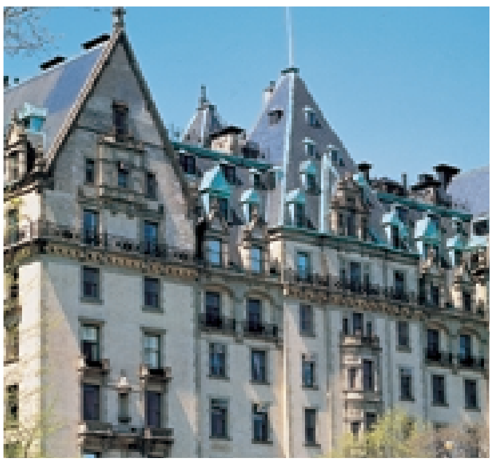
	CPI	% Change CPI	Aver. Co-op Price	% Change	CPI Adj. Price	% Change
1988	123.7		$1,026,784		$1,026,784	
1989	130.6	6%	$1,008,600	-2%	$ 955,313	-7%
1990	138.5	6%	$ 939,415	-7%	$ 839,030	-12%
1991	144.8	5%	$ 838,541	-11%	$ 716,350	-15%
1992	150.0	4%	$ 885,186	6%	$ 729,983	2%
1993	154.5	3%	$ 866,928	-2%	$ 694,104	-5%
1994	158.2	2%	$ 886,341	2%	$ 693,049	0%
1995	162.2	3%	$ 845,383	-5%	$ 644,722	-7%
1996	166.9	3%	$ 834,224	-1%	$ 618,295	-4%
1997	170.8	2%	$1,066,616	28%	$ 772,485	25%
1998	173.6	2%	$1,186,295	11%	$ 845,304	9%
1999	177.0	2%	$1,495,024	26%	$1,044,828	24%
2000	182.5	3%	$1,974,497	32%	$1,338,330	28%

Source: Bureau of Labor Statistics

buyers competing for limited product, in a relatively more affordable market.

Trends in Housing

Change is much less rapid in Manhattan than it was in the 19th or early 20th centuries. Historically, the city's affluent residents fled rapid commercial growth in lower Manhattan and established new residential neighborhoods uptown. Manhattan is getting richer, but it is no longer growing or changing as rapidly as it was, even 40 years ago. The decline and renaissance of the Upper West Side and the gentrification of Soho are now history. New housing devel-



opments in Tribeca, Chelsea, or on Third Avenue appear to be comparatively few in number. Indeed, there were only about 29,900 new housing units added to the Manhattan market from 1988 to mid 2000[11], many fewer than the increase in affluent households estimated by the Polk Company and CACI (65,000 and 40,096 respectively since 1989.) Nevertheless, as the luxury housing market has grown in size, the nature of new luxury housing itself has shifted, reflecting a consolidation of trends that began 20 years ago. These trends may be described as a re-definition of luxury in housing.

The Re-definition of Luxury in Housing While greater concentrations of income and wealth have reinforced economic elitism, large, rapid increases in the number of wealthy households have democratized the concept of luxury by disassociating it from the cultural and social prejudices of established wealth. As they increase in number, affluent households are competing for a limited supply of "suitable" housing. At the same time, they are freer to experiment with newer forms of housing expenditure. Not just price, but a parallel broadening in tastes is having an important impact on our market. Here we have briefly discussed three important changes in taste: the increased preferences for freedom and space, and the broader definition of urbanity.

The Taste for Freedom Freedom in housing is the freedom of owners to do what they wish with their property – in other words with their money – and in this market the fashion for freedom had caused as a shift in preferences towards condominium ownership. Indeed, some condominium prices exceed those of the most exclusive cooperatives. During the 1980's, condominium apartments tended to be smaller, with one or two bedrooms, catering to the affluent, but not to the very rich, or when expensive, to those looking for a city *pied-a-terre*. In the past decade, condominium apartments have become larger and much more expensive. They have been successfully sold to families who can afford housing worth millions of dollars. Fewer than 1,000 cooperative apartments have been built since 1988, compared to approximately 12,000 condominiums.[12]

The architectural and visual presentation of these successful condominiums often refers to either pre-war exclusivity or artistic (loft-space) creativity. Nevertheless, the condominium format differs significantly from both traditional cooperative and artist-in-residence (AIR) restrictions. The freedom to buy what one wants is now relatively more important than either the preservation of socially exclusive or creative environments. In a market that emphasizes freedom, cooperatives have lost relative value and artists have been displaced to Brooklyn.

The Demand for Space The demand for space is commonly attributed to the rising popularity of the city among affluent young families. This is certainly the case in prime family neighborhoods on the Upper West Side or Carnegie Hill. The newly affluent neighborhoods have been attractive to families seeking what is, or what was once, relatively inexpen-

Manhattan is getting richer, but it is no longer growing or changing as rapidly as it was, even 40 years ago.

. . . More recently the demand for space has increased and location preferences have broadened.

sive square footage. However, the demand for space is largely a matter of taste. The grandest apartments on Park and Fifth Avenues are often sold to couples without children at home. In the newly developed condominium at 515 Park Avenue, where apartments have 2,200 to 6,500 square feet, only about a third of the residents actually moved in with children. At the Greenwich, a new loft building in the Village, 2,100-to 3,000-square-foot lofts have typically sold to younger couples. Many of them are planning families, but fewer than 20% actually moved in with children. Not only families with children, but also other types of households are paying premiums for the largest apartments.

A Broader Definition of Urbanity Urbanity is in the broader definition of refinement in city living. Whereas in a prior generation, well-to-do households reduced their expectation for space and narrowed their location preferences (or moved to the suburbs), more recently the demand for space has increased and location preferences have broadened. For many years there have been pockets of affluence in the Village, on Central Park West, on Beekman Place and in other enclaves; but typically, in the past few generations, the wealthy have congregated on the Upper East Side, between Fifth and Lexington Avenues. Beginning in the mid 1970's, residential wealth re-established itself on the Upper West Side and made its presence felt in Soho and Midtown Manhattan.

In the 1990's, these trends have been reinforced. Large new "pre-war" condominium apartments have been built along Lexington and Third Avenues, as well at more traditional Park Avenue addresses. On the Upper West Side, expensive cooperative apartments are now found on Broadway, in old pre-war buildings and in new condominiums, and not only on West End Avenue, Riverside Drive and Central Park West. Downtown there has been a burst of new luxury loft construction, this time in Tribeca and in Chelsea, which are not hampered by artist-in-residence restrictions. The Lincoln Center area, previously a passé collection of 1960's and 70's post-war buildings, has been transformed by the construction of several luxury condominium high rises. These trends have affected affluent households, buying one and two bedroom apartments of modest luxury, as well as the very wealthy. Many prices in these formerly *avant-garde* areas now exceed $1,000,000.

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[1] *The Global City*, Saskia Sassen, Princeton University Press, 1991.

[2] This market is fairly narrowly defined to include Manhattan's most expensive residential property and includes the Upper East Side, from Fifth to Third Avenue, as well as Central Park West, Sutton Place, Beekman Place and select buildings on the Upper East Side The table is based on 9,074 closed transactions since 1988.

[3] The annual averages are based on a sampling of 19,830 sales of at least $75,000. All are located south of West 116th or East 96th Street.

[4] Active listings are defined as those that have been updated as available within the three months prior to our update date. This is an imperfect but workable definition. Excluded from active listings are the following categories: "future", "lead", "offer accepted", "contract out", "contract signed", "temporarily off the market", and "board approved".

[5] "Manhattan Housing Prices, as of December 31, 2000", Sicular, Larry, BHS Appraisal & Consulting LLC

[6] Sassen, Ibid. pp 4-5

[7] "Employees on Nonagricultural payrolls", New York State Department of Labor survey data for New York City, 1960 (3,490,000), 1988 (3,557,800), October 2000 (3,746,900)

[8] Household income estimates are prepared once each decade by the Census Bureau and are updated periodically by Census Bureau surveys and by a number of private companies. Due to the complexity and differences in their methodologies, estimates have been obtained from both the Polk Company/DemographicsNow and the CACI reports.

[9] Based on DJIA, yearly close, 2,168.57 in 1988 and 10,786.85 in 2000

[10] "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances", Federal Reserve Bulletin, January 2000

[11-12] Compiled from *Residential Construction in Manhattan: A comprehensive market survey*, Yale Robbins

Conclusion

We have briefly surveyed historical price trends in Manhattan's cooperative, condominium and rental markets. Our analysis indicates that although prices have increased substantially over the past four to five years, these increases have been relatively modest when viewed as annualized averages since 1988.

Not only have price increases been modest in comparison to other investments, but also they have lagged the enormous increases in wages, wealth and income that have characterized this 13-year real estate cycle. For the most affluent households, Manhattan apartments are now relatively more affordable than they were in 1988.

Manhattan has been transformed, not only by an increase in wages and wealth, but also by a large increase in the number of affluent households. While relatively few new housing units have been added to the Manhattan market during this cycle, most of these apartments represent a growth in housing stock available to the most privileged. Furthermore, many housing types and locations previously defined as "acceptable" have been redefined as privileged and even luxurious. The concept of sophisticated Manhattan has broadened as the affluent experiment with new housing forms and locations.

Larry Sicular
January 20, 2001

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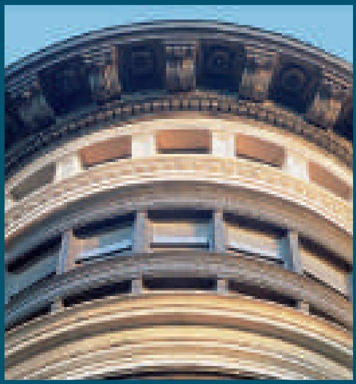
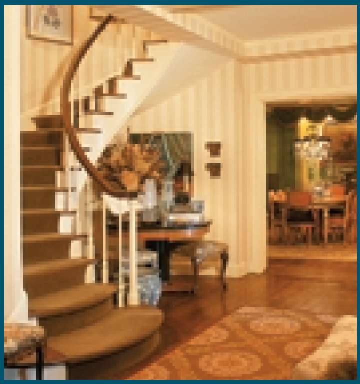
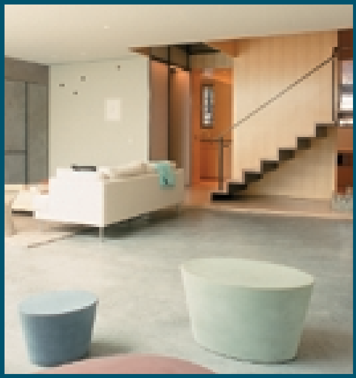


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