THE GUIDE TO LUXURY LIFESTYLES IN THE TRISTATE AREA

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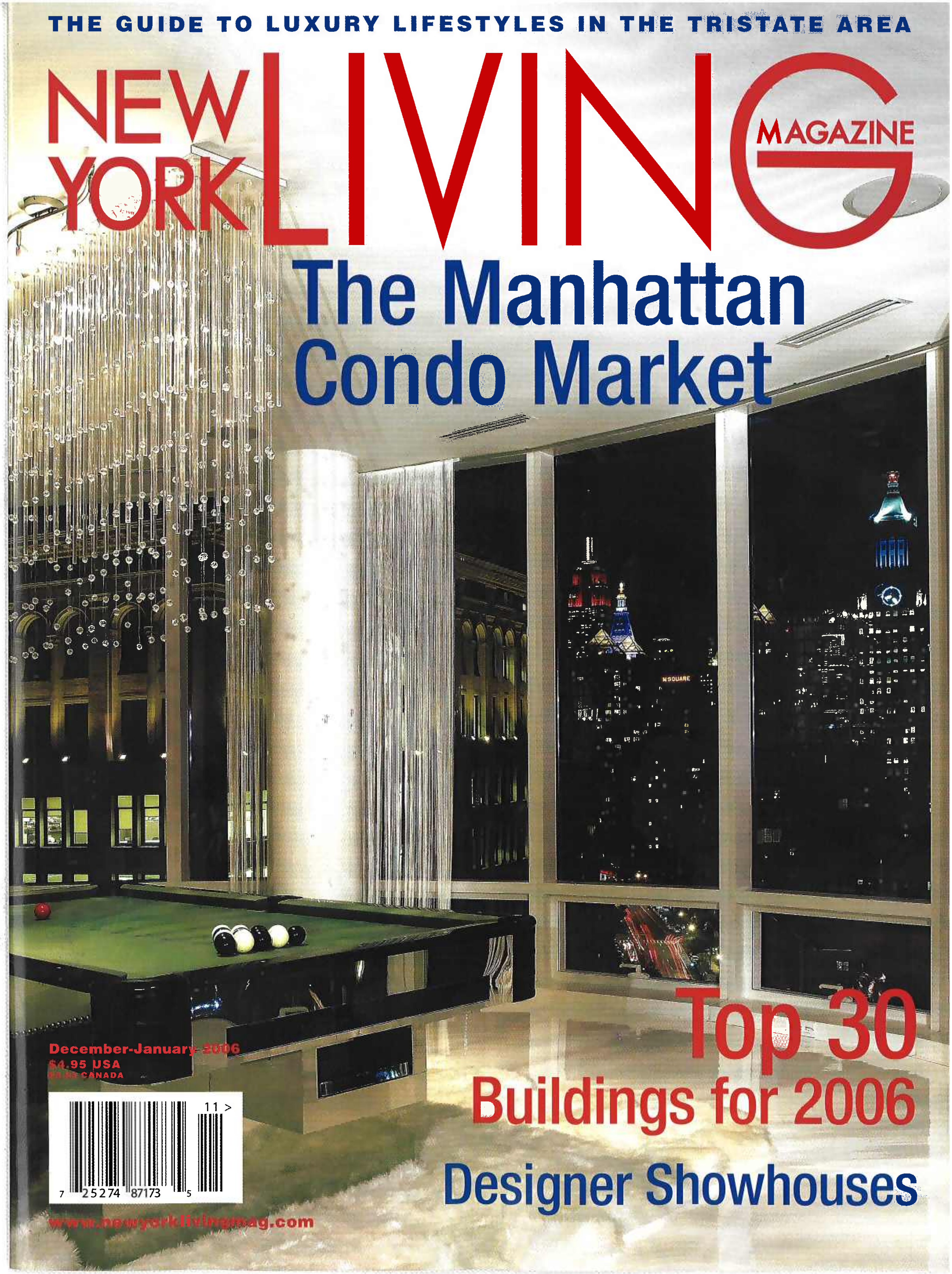

The Manhattan Condo Market

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The Third Estate: Condos Reshape New York Housing

By Jonathan Miller,
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Manhattan's residential real estate consists of three types of housing that have given Manhattan its character over the past two centuries:

Single Family Homes (First Estate) Beginning in lower Manhattan, single-family detached and later townhouses evolved as the first form of owner-occupied housing. Development pushed north evolving from brick to brownstone to limestone façades. As Manhattan grew more affluent, houses increased in size. By the end of the 19th century, multi-family housing appeared and today, single-family houses comprise less than one percent of the city's housing stock.

Co-op Apartments (Second Estate) By the Civil War, public confidence in the elevator improved, and the cost of land increased. Multi-family housing, namely rentals, proliferated. The first co-op appeared in 1876, known as The Randolph on West 18th Street. Co-op ownership grew over the next 110 years, ending with the co-op conversion craze in the mid-1980s.

Condo Apartments (Third Estate) In the early 1960s the condo form of ownership entered Manhattan. The first condo development, known as the St. Tropez on East 64th Street was not well received, as New Yorkers were more comfortable with the co-op form of ownership. Condos gained momentum in new development projects in the 1980s as co-ops reached their nadir.

Condos are now prevalent in new developments. Despite the fact that condos comprise only 20 percent of the owner occupied housing, they account for 33 percent of the residential unit sales. Now a new development is constructed with co-op ownership when it is subsidized housing or is on leased land. By definition, a condo must be owned in fee simple, which includes the land as part of the ownership.

Currently, several new developments are co-ops because the site is on leased land. A few include Astor Place, The Stanhope and One Carnegie Hill. This phenomenon shows the lack of sites available for development, and essentially, the only new housing stock comes in the form of condominium ownership.

Why are condominiums preferred for new development? First, the overall value is approximately 15 percent higher than a co-op. This was confirmed through a joint research project that my firm conducted with New York University, in which we analyzed nearly 100,000 transactions and controlled for all measurable unit and building amenities. It comes down to marketability and the control a co-op board has over the transaction, limiting the flexibility of the seller to achieve their price. Developers have one chance to maximize their return from a project and therefore opt to go condo.

The current condo market is characterized by prices at or near record levels and rising inventory. According to the third quarter Manhattan Market Overview that I author, the average price per square foot of condo units, including re-sales, new conversions and new developments, was $1,105 per square foot, the highest in the history of Manhattan real estate. This was up 1.5 percent (six percent annualized) over the prior quarter price per square foot average of $1,089, a record at that time, and up 19.1 percent over the prior year quarter average price per square foot of $928, which also was a record at that time.

We also found that inventory is rising as the number of sales at the upper price strata, dominated by condominiums, retreated over the summer as buyers were bombarded with negative economic news. The number of co-op apartments available for sale was up two percent over the prior year quarter while the amount of condo units available for sale at the same period was up 27.1 percent. The short-term spike in inventory was caused by the "pause" in the upper end of the market this fall. Preliminary information for the fourth quarter shows that sales activity appears to be returning to more normalized levels.

The entry-level condo market saw gains for the most recent quarter in terms of market share and average price. Studio and one-bedroom units accounted for 53 percent of all condo sales, the highest share this segment has seen in recent years. At the same time, their average sales prices jump sharply from the prior quarter. The average sales price of a Manhattan studio unit was $531,739 in the third quarter, up 18 percent over the prior quarter and one-bedroom units saw an average sales price of $794,039, up 9.6 percent over the prior quarter.

The market was weaker at the upper end of the size spectrum as compared to the second quarter results which had set records in nearly all price categories. The average sales price of a two-bedroom unit was $1,736,748, down 4.6 percent from the prior quarter; the average sales price of a three-bedroom unit was $3,877,361, down one percent from the prior quarter; the average sales price of a four-bedroom unit was $9,244,300, the second highest on record but still down 32.4 percent from the prior quarter record of $13,669,223.

What does this mean? The condo market is here to stay and may actually outsell co-ops within the next generation (but not exceeding the total co-op housing stock) if the pace of new condo development continues. The main reason is their enhanced marketability over co-ops. However, just as we saw co-ops take on condo-like rules in the 1980s during the co-op boom, today we are seeing an emerging trend of condos taking on co-op like characteristics, like adding flip taxes and being more restrictive on approvals and rentals.

With all the attention the mass media has provided the recent real estate boom, who says there won't be a Fourth Estate for real estate?

Jonathan Miller is a cofounder and president/CEO of Miller Samuel Inc., a Manhattan-based real estate appraisal firm (www.millersamuel.com). His company appraised more than $4 billion of Manhattan residential property in the past year He is a general certified real estate appraiser in the State of New York and has been appraising properties in Manhattan for 19 years. He sits on the Mayor's Economic Advisory Panel for the New York City Office of Management and Budget and the Fannie Mae Co-op Panel; among others. He is a prolific blogger, running Matrix, a Web site that interprets the real estate economy (matrix.millersamuel.com), and Soapbox, a Web site covering appraisal issues (soapbox.millersamuel.com). He is also the cofounder of Miller Cicero, LLC, a commercial valuation concern, and is the author of reports on the Manhattan real estate market, including the quarterly Manhattan Market Overview, the 10-year Manhattan Market Report, and the Manhattan Townhouse Report on behalf of Prudential Douglas Elliman.