THE STAMFORD REVIEW

Spring/Summer 2006

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Introduction

This issue is about the reconfiguration of New York City, a physical transformation that has been fueled by a mixture of population growth, increased affluence, and an unusually strong housing market. What is happening here is mirrored to varying degrees in successful cities elsewhere in this nation and across the globe.

Here, nine experts praise and critique city government's efforts to guide this transformation, to meet and balance growing demands for market housing, affordable housing, open space, industrial space, and historic preservation. Even as the housing market softens, these policies will have long-term effects and will continue to be debated.

In recent years it has been easy to forget Jonathan Miller's reminder that twenty years ago Manhattan's housing market relied on government tax policy to stimulate demand. Julia Vitullo-Martin applauds the results of public and institutional investment in the Bronx, but she notes that destructive government policies helped depress the borough in the first place.

Much of our attention is drawn to the city's extensive rezoning of former industrial areas on the Brooklyn waterfront and the west side of Manhattan. Frank Braconi questions whether these initiatives are sufficient to meet the needs of our growing population, while Kimberly Miller and Mark Alexander address what will be required to make the rezonings a success. Peter Beck shows us that limited public resources, directed to these areas for affordable housing, could perhaps be more effectively spent, while Lisa Kersavage shows us how rezoning need not have cost us valuable historic resources. Pamela Hannigan praises the city policy that is creating new industrial business zones in order to preserve and stimulate the valuable manufacturing resources that remain.

And then there is Governors Island. Is there a greater possibility for adding a jewel in our crown than the history and open spaces that this island offers and represents? Our third issue is dedicated to the possibilities of Governors Island.

Lawrence Sicular
February 8, 2006

Manhattan's Housing Market and the Media

by Jonathan J. Miller

THE Manhattan real estate market, not unlike many metropolitan real estate markets in the United States, replaced the stock market as the primary topic of backyard barbeques over the past several years, due in large part to the recent fixation with the word "bubble" in big media and the blogosphere.

This began to take shape in the early spring of 2005, when the housing market became synonymous with the word "bubble" in much of the media coverage. Comparisons were drawn to the stock market correction in 1987 and the dotcom bubble burst in 2000. After all, to what other financial phenomenon can we compare the current real estate market? This time around, however, the coverage seemed to imply that the housing market would be a catalyst for some sort of economic disaster, rather than be affected by one. By the time summer arrived, reasons for concern appeared.

In economic terms, the summer of 2005 was far from ordinary. It was a hurricane of bad news, literally. Mother Nature, as well as China, Iraq, Detroit automakers, and Alan Greenspan all seemed to add to the economic uncertainty as it related to housing. Each month, the Census Bureau and the National Association of Realtors released their existing and new home sales statistics and, no matter the outcome, it seemed to stoke a rising media frenzy. Finally, it was the devastation of hurricanes Katrina and Rita that sent shockwaves across the housing market.

Followers of the Manhattan housing market expected bad news. In fact they *needed* bad news because that was the mindset of the day. On October 4, 2005 Miller Samuel released the Manhattan Market Overview 3Q '05 that we author for Prudential Douglas Elliman. Two other brokerage firms released market reports on that same day as well. Market participants seemingly braced for the results. Many in the media indicated to us that if a major real estate market like New York fell, it was possible that others would follow.

In residential real estate, there is a need by many to rely on the one number that will identify trends. Real estate is not about one number, which is why Miller Samuel presents several. Among these price indicators, as compared to the prior quarter, median sales price showed a 3.2 percent drop, average price per square foot showed a 1.4 percent increase, and average sales price showed a 12.7 percent drop. These statistics showed relatively mixed results, more negative than what readers had become accustomed to over the past several years, though by no means a sign of a bubble bursting.

Not surprisingly, the 12.7 percent drop in average sales price was selected almost universally in the first batch of stories that were published; among them was the *New York Times'* front page story "Slowing Is Seen in Housing Prices in Hot Markets." The response was similar from other influential media including Bloomberg News, Dow Jones, and CNN. Coverage of the report that day extended from Australia, to New Zealand, to Italy, to Alabama, to New

York. We are aware of 46 distinct stories on the first day the report was released, including broadcast and Web coverage. In addition to the media interest, Wall Street investment firms, bond companies, real estate brokerages, New York City government agencies, the Federal Reserve, and others called us to clarify whether we thought the housing boom was over. The deluge of requests for additional information and clarification was so overwhelming that we posted a summary of the salient points in our Matrix Web log, http://matrix.millersamuel.com/?p=160, called "Manhattan After The Hoopla Over A 12.7% Drop: What Really Happened In 3Q 05?" Media coverage continued to be heavy over the next several days but backed away from the 12.7 percent figure once the other statistics in the report were reviewed.

Buyer psychology can be a fragile force in a housing market. A rapid change in sentiment was certainly possible after six months of negative housing coverage in the media, which then peaked in the third quarter. However, consumers remained surprisingly optimistic, despite concerns that a weaker fourth quarter could mark the beginning of a significant downturn for Manhattan real estate.

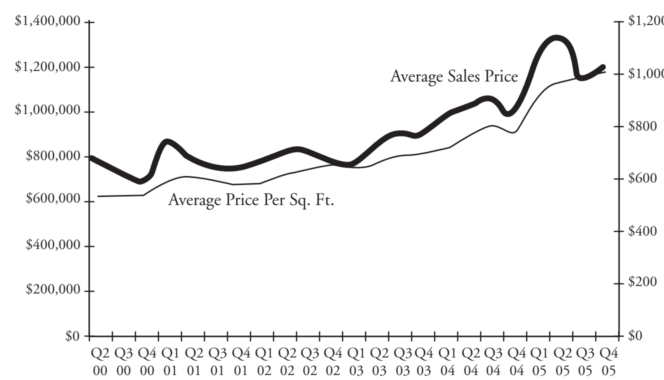
Fourth quarter housing prices in Manhattan saw modest gains over the prior quarter. Price appreciation had now remained relatively modest for two consecutive quarters. This suggested that the market has shifted gears from the double-digit growth of the past several years to single-digit growth, which is more likely to be sustainable in the long term. The resulting media coverage was just as widespread as in the third quarter, but the sense of panic seemed to have abated.

Why? The fourth quarter did not see a drop in housing prices. It did experience a sharp drop in the number of sales and a rise in inventory as compared to the prior quarter. The negative change in these indicators was interpreted as a *short-term holdback* by buyers, caused by a plethora of troubling economic news.

Now, after two consecutive quarters of modest price appreciation in Manhattan as well as nationally, the media has adjusted its terminology from a "bubble ready to burst" to a "soft landing" or a more "normalized" market. Interestingly, economic fundamentals did not see significant change in the second half of 2005 yet its characterization, and thus public perception, did change.

An increase in the number of contracts, including at least six sales in excess of $20 million in December, seemed to signal more optimism for the outlook in early 2006. The good news couldn't have come at a better time. The record Wall Street bonuses paid out due to the solid year by mergers and acquisitions specialists as well as investment bankers is what differentiates the New York regional real estate market in 2006 from the remainder of the country. Historically, Wall Street bonus income has flowed through the real estate economy after the New Year and this year seems to be no exception. It has been hailed as a panacea for the current real estate market. However, it is not certain whether this money will flow into the real estate economy as freely as it has in years past.

Average Sales Price v. Average Price Per Sq. Ft.



Source: Miller Samuel Inc.