

A Tale of Two Views **April 2010**

Introduction

DUMBO. Down Under The Manhattan Bridge Overpass - arguably one of the most hyped neighborhoods of the aughts. I thought I would take a stab at analyzing some of the real estate in the area. It's always interesting when market reports and news stories quote a price per square foot or median price for an entire neighborhood. I believe that these numbers are not very useful because even within a neighborhood as small as DUMBO, there are still micro markets that exist based on apartment features. Though DUMBO is a cultural and business center, is safe, family friendly, and has access to shops/restaurants/parks/transportation, the main attraction to real estate in the area is for the world class views. There are really two markets cohabitating in the DUBMO market - one for apartments with "wow factor" views, and one for apartments that do not contain them. The existence of two separate markets will be empirically proved and explored in this paper.

The goals for this analysis are 4 fold:

- 1) Visually display the existence of the two separate markets in DUMBO
- 2) Quantify \$/PSF value for apartments with "wow factor" views vs those that don't
- 3) Assess the effectiveness of an actual DUMBO appraisal
- 4) Discuss the pricing of apartments currently on the market

Data and Definitions

The area is actually incredibly small with only a few buildings and I chose to look at the two flagships - 1 Main Street (The Clocktower) and 30 Main Street (The Sweeney Building). Both buildings are well established door men condos with views. Other buildings in the area do have views - but I chose not to look at others such as 100 Jay and 85 Adams are new construction, and 70 Washington runs the risk of views being obstructed by the Dock Street development. From 2003-present there were 195 sales in these 2 buildings representing approximately 240 million dollars in value, a large enough sample size for this analysis. The penthouse sale at 1 Main, Cabanas at 30 Main, and one outlier at 30 Main (apt 7G on 9/14/9) were excluded from the analysis

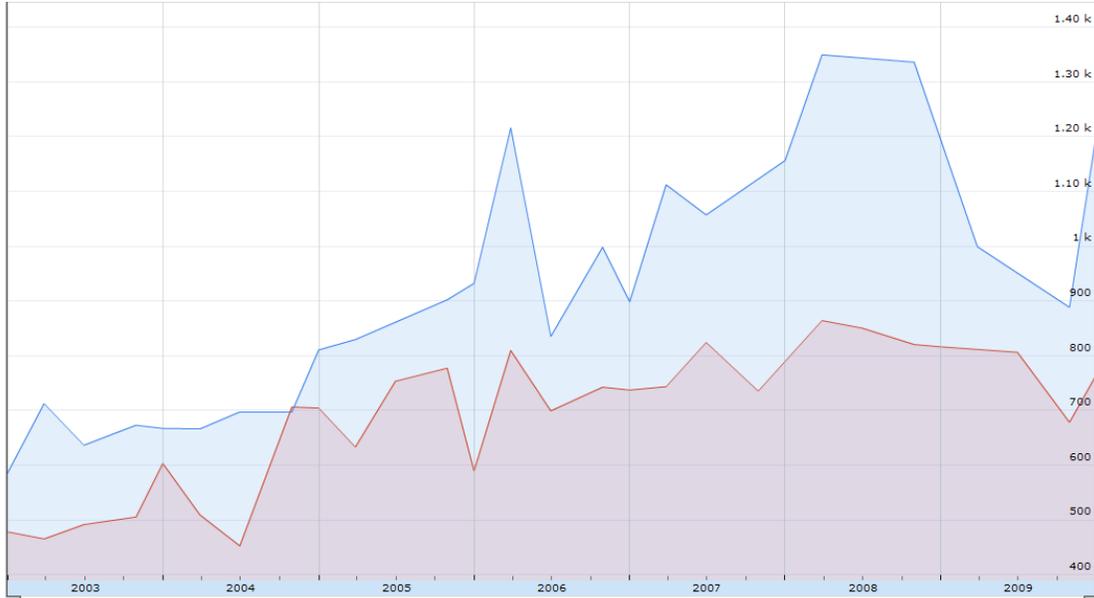
The views I define as "wow factor" contain large windows that have full unobstructed views of the East River + Manhattan Bridge or East River + Brooklyn Bridge + Downtown Manhattan. More specifically these are:

- 1 Main - Any B, C, D line apartment or an A, J, K, L apartment above floor 4.
- 30 Main - G, H, A, B apartments above floor 5

All sale price information was taken from ACRIS and square footage sizes were taken from the condo offering plans. It's important to note that the sale dates represent CLOSING dates - meaning that there can be some noise in the data depending on how long each apartment was in contract. 40 of the sales contain contract date data available from StreetEasy, where the average days between contract and close at 73 days.

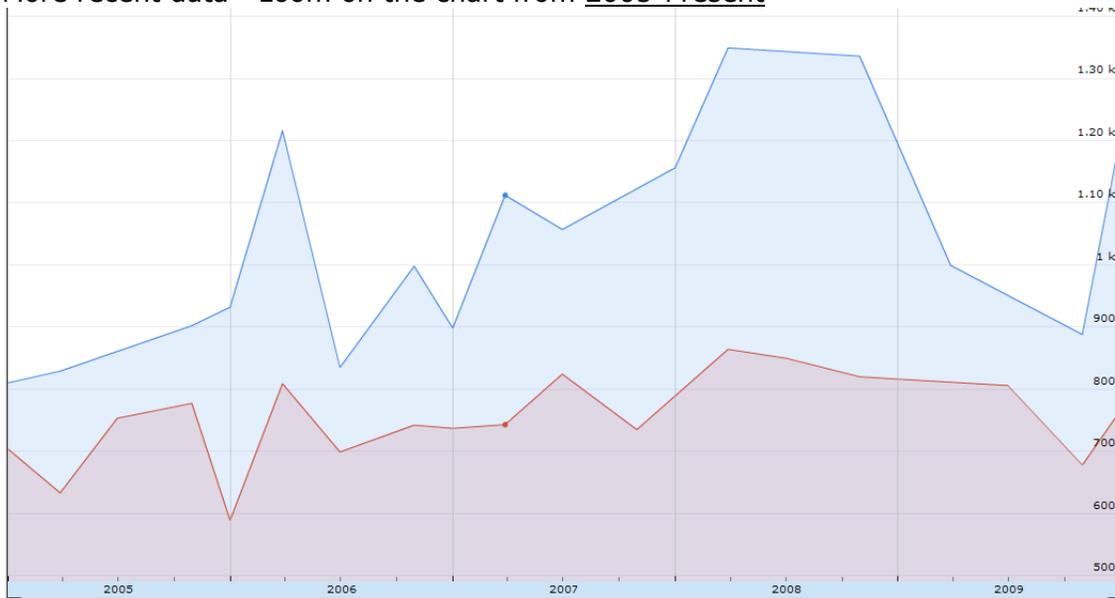
Visual Display

The blue line in the graph below represents the average value price per square foot paid quarter by quarter for apartments that have spectacular views. The red line represents the PSF sale price those that do not. Along the X axis is time and the Y axis is dollars paid per square foot (\$/PSF).



You can see that over time there is a clear gap between the blue line and the red line (Aside from Q3 2004). This gap represents the higher value of apartments with spectacular views. Furthermore, since 2005 the red line remains fairly constant with a band around 700-800 \$/PSF, while the blue line spikes and dips with the market. It's important to highlight again that the closing price data comes from ACRIS, which means that the dates are closing dates – NOT the dates each contract was signed.

More recent data - zoom on the chart from 2005-Present



Quantification

Here is the same data in table format. You can clearly see the # of sales, total dollar value of sales per quarter, and weighted \$/PSF for each quarter. It's also interesting to note that though there were 42 more sales of non spectacular view apartments the total \$ value is only 6mm more. The final takeaway from the chart is that that the average weighted \$PSF difference for the entire timeline is ~\$268 PSF.

Quarter	Spectacular Views				Lacks Spectacular Views				Totals			
	# of Sales	Sales \$	\$ Weighted PSF	PSF Contribution	# of Sales	Sales \$	\$ Weighted PSF	PSF Contribution	# of Sales	Sales \$	\$ Weighted PSF Diff	PSF Contribution Diff
2003 Q1	5	4,617,614	585.23	22.85	3	2,337,631	478.66	9.21	8	6,955,245	106.57	13.64
2003 Q2	10	12,256,845	712.61	73.86	17	12,616,053	465.12	48.32	27	24,872,898	247.49	25.54
2003 Q3	5	4,981,277	636.78	26.82	20	17,873,263	491.38	72.33	25	22,854,540	145.40	-45.50
2003 Q4	2	1,842,993	673.38	10.50	7	6,188,187	505.53	25.76	9	8,031,180	167.85	-15.27
2004 Q1	7	9,199,971	667.07	51.90	5	5,388,239	603.56	26.78	12	14,588,210	63.51	25.12
2004 Q2	8	9,617,516	666.13	54.18	6	5,653,382	509.78	23.73	14	15,270,898	156.36	30.44
2004 Q3	2	2,696,535	697.12	15.90	1	525,000	452.20	1.96	3	3,221,535	244.92	13.94
2004 Q4	2	3,440,000	697.77	20.30	3	2,825,000	706.97	16.45	5	6,265,000	-9.21	3.85
2005 Q1	2	2,589,000	810.68	17.75	5	5,963,888	704.06	34.58	7	8,552,888	106.62	-16.83
2005 Q2	3	4,058,000	829.45	28.46	2	2,000,000	633.41	10.43	5	6,058,000	196.04	18.03
2005 Q3	0	-	0.00	0.00	3	4,824,200	753.15	29.92	3	4,824,200		-29.92
2005 Q4	1	1,075,000	902.60	8.21	1	1,100,000	777.93	7.05	2	2,175,000	124.67	1.16
2006 Q1	3	5,399,000	932.23	42.56	1	990,000	589.64	4.81	4	6,389,000	342.59	37.76
2006 Q2	2	5,820,270	1216.16	59.86	4	4,670,999	809.91	31.15	6	10,491,269	406.25	28.70
2006 Q3	1	995,000	835.43	7.03	2	1,712,500	699.35	9.86	3	2,707,500	136.08	-2.83
2006 Q4	2	4,470,000	998.29	37.74	5	4,674,000	742.68	28.59	7	9,144,000	255.61	9.15
2007 Q1	4	7,470,000	898.97	56.79	7	7,784,250	737.89	47.30	11	15,254,250	161.08	9.49
2007 Q2	2	4,615,000	1112.69	43.43	6	8,839,000	743.94	54.15	8	13,454,000	368.75	-10.73
2007 Q3	1	1,750,000	1057.40	15.65	6	7,360,125	824.55	49.98	7	9,110,125	232.85	-34.33
2007 Q4	0	-	0.00	0.00	2	3,147,500	735.25	19.06	2	3,147,500		-19.06
2008 Q1	2	4,233,250	1156.67	41.41	0	-	0.00	0.00	2	4,233,250		41.41
2008 Q2	5	11,295,000	1349.36	128.89	1	1,500,000	864.55	10.68	6	12,795,000	484.81	118.21
2008 Q3	0	-	0.00	0.00	2	2,500,000	850.18	17.50	2	2,500,000		-17.50
2008 Q4	1	1,890,000	1336.63	21.36	1	1,160,000	820.37	7.84	2	3,050,000	516.27	13.53
2009 Q1	0	-	0.00	0.00	2	2,447,000	816.51	16.45	2	2,447,000		-16.45
2009 Q2	1	2,475,000	999.19	20.91	0	-	0.00	0.00	1	2,475,000	999.19	20.91
2009 Q3	0	-	0.00	0.00	2	2,380,000	806.89	15.81	2	2,380,000		-15.81
2009 Q4	2	2,725,000	888.09	20.47	2	2,595,000	678.38	14.50	4	5,320,000	209.72	5.97
2010 Q1	4	8,738,000	1223.99	90.45	2	2,375,000	768.71	15.03	5	7,913,000	455.28	75.41
Grand Total	77	118,250,271	754.62	917.26	118	121,430,217	640.36	649.25	195	239,680,488	266.03	268.02

To extrapolate the \$268 PSF into more real terms – we are saying that having two apartments of the same size, one with a view would cost \$1,000,000 while one without would cost \$732,000. The calculation methodology for PSF calculations were weighted by total square foot. For example, if a 3000 sq ft apartment sold for 1000 psf and a 1000 sq ft apartment sold for 2000 a foot, the avg for that quarter would be 1250. $4000 \text{ total sq ft sold} - 3000/4000 = .75, 1000/4000 = .25, (.75 * 1000) + (.25 * 2000) = 1250$.

Assuming a 20% down payment and 5.5% 30 year fixed mortgage the payments would also work out as follows:

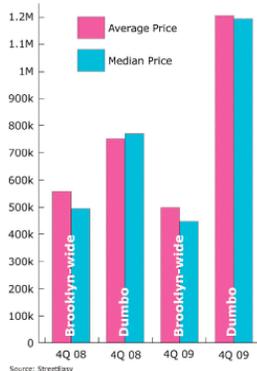
View: \$200,000 down, \$800,000 mortgage, monthly payment of \$4,542

No View: \$146,400 down, \$585,600 mortgage, monthly payment of \$3,325

So we have a difference in monthly payment of \$1,217 per million dollars of apartment value, and an annual amount of \$14,604 per year.

So when you see a graphic like below that suggests the median price in DUMBO is \$1.24 million, you know that value per square foot within that median price is drastically different depending on if the apartment has a spectacular view vs. not.

Prices up in Dumbo



(Source: The Real Deal <http://therealdeal.com/newyork/articles/dumbo-defies-odds>)

Appraisal

I got my hands on an actual appraisal for a unit that has a "wow factor" view - and looked at the comps. The first thought is to look at the comps themselves. Understandably, it is very difficult to find true comps considering real estate is such an illiquid asset, but I have highlighted in red the major issue as to why each particular comp loses validity - lets work from the bottom up. If you are buying at 1 Main or 30 Main, you are most likely not considering 360 Furman Street (1 Brooklyn Bridge Park). This is like comparing the Upper West Side and Hells Kitchen - though close in distance, they are just totally different neighborhoods that appeal to different clientele. The Next 3 - 30 Main/7C, 1 Main/5E, and 1 Main/2K - don't have spectacular views. As we showed in the above chart, there is a significant difference in value when the view is not present and should not be compared. Lastly, though 1 Main/12K could be considered a comparable - I don't see how it makes sense to compare a sale in 2010 to one that was signed before the Lehman collapse.

Comp Units			Sale Data		Adjustments (in PSF)		
Building	Unit	View?	Date	PSF	View/Floor	Time	Total PSF
1 Main St	12K	Spectacular	09/29/2008	1337	13	74	1250
1 Main St	5E	No	03/11/2009	778	31	20	754
1 Main St	2K	No	02/06/2010	795	8	42	813
30 Main St	7C	No	06/12/2009	843	57	8	894
360 Furman	1218	N/A	07/09/2009	1086	47	5	929

Appraisers take these differences into account and thus make adjustments to true up the values of the apartments. In this case, adjustments were made for date of sale, maintenance costs, floor, view, age of building, bathroom count, size in square feet, outdoor space, common roof deck, and garage. Here is a snippet of those adjustments:

SUMMARY OF SALES COMPARISON APPROACH:

SQUARE FOOT ADJUSTMENT AT \$200/SQUARE FOOT IS TYPICAL. ROOM COUNT ADJUSTMENT IS FOR BATHS ONLY.

SUBJECT & ALL COMPARABLES ARE LOCATED IN THE SAME MARKET AREA.

FLOOR ADJUSTMENTS WERE MADE AT \$3,000/PER FLOOR

If you refer back to my chart above you can see the total appraised PSF of each apartment as well as the contribution to Total PSF for each adjustment. I've left the sign (+/-) off the view/floor and time adjustments, but you can assume that they are positive for the apartments that do not have "wow factor" views. You can see that the View/Floor and Time adjustments are nowhere near where they need to be compared to the empirical finding

In summary, this appraisal does not take into account the severity of difference in price that comes from the nuances of view or timing accurately. More proof that appraisers need in-depth local knowledge of the properties they are assessing in order to be able to compare apples to apples.

Current Listings

There are currently 11 units for sale between 1 Main and 30 Main, more important than location, there are 4 with spectacular views and 7 without. The chart below shows those listings and is sorted by price per square foot – looks like the sellers are aware of the bifurcated market as well.

Current Listings On Market				
Building	Unit	View	Days Listed	PSF
1 Main St	5D	Spectacular	326	1695
1 Main St	3C	Spectacular	11	1162
30 Main St	8G	Spectacular	179	1081
30 Main St	9A	Spectacular	61	1052
1 Main St	11E	No	403	1037
1 Main St	6GH	No	395	1000
1 Main St	2J	No	330	947
1 Main St	10F	No	88	889
30 Main St	6C	No	635	887
1 Main St	3E	No	7	835
30 Main St	4F	No	62	705

Below is the post Lehman/Financial collapse price per square foot for the area.

Quarter	Spectacular Views				Lacks Spectacular Views			
	# of Sales	Sales \$	\$ Weighted PSF	PSF Contribution	# of Sales	Sales \$	\$ Weighted PSF	PSF Contribution
2009 Q1	0	-	0.00	0.00	2	2,447,000	816.51	203.94
2009 Q2	1	2,475,000	999.19	177.43	0	-	0.00	0.00
2009 Q3	0	-	0.00	0.00	2	2,380,000	806.89	196.02
2009 Q4	2	2,725,000	888.09	173.63	2	2,595,000	678.38	179.69
2010 Q1	4	8,738,000	1223.99	767.34	2	2,375,000	768.71	186.35
Grand Total	7	13,938,000		1118.40	8	9,797,000		766.00

You can see that the average for the last 5 quarters comes out to approximately 1118 \$/PSF for apartments with views and 766 \$/PSF for apartments that lack. We also see that there is a significant upward trend in the spectacular view apartments where 3 units sold in Q1 of 2010 at a size weighted average of 1224 \$/PSF.

Per our earlier analysis with the appraisal – there are nuances to the way these apartments are priced. 1 Main/5D is priced at 1695 \$/PSF due to extensive renovations. 1Main/6GH is commanding a premium due to its size (3bed) as well as renovations.

View Apartments: Considering the current listings are either below 1118 \$/PSF or very close to the latest quarter's \$/PSF (1224), the data suggests that all apartments with views aside from 5D are accurately priced.

Non View: We also see that all apartments that lack spectacular views aside from 30 Main/4F are overpriced as they are over the 766 \$/PSF recent average and the data does not suggest any upward trend at the moment.

Conclusion

It's important to disclose that this analysis is measuring the value of space within the DUMBO area, and assumes that buyers are solely looking at apartments within this area. It highlights how even within two buildings there are many nuances and generalizing apartments across neighborhoods is a very difficult and complex task.

Through analyzing historic closing sale information it is clearly visible that there are two separate markets in existence in DUMBO. Refining the data suggests that the price differential between the two markets is ~268 \$/PSF. Even within the same building there are significant factors that create a drastic difference in value, and breaking down into monthly mortgage payments the price differential for apartments with views vs those that don't works about to ~\$14,600 annually for a \$1 million apartment.

This analysis has also shown that appraising a property is an extremely difficult task that requires an immense amount of local knowledge and building/apartment features.

Lastly, the current listings in the markets for apartments with views are priced in line with historic \$/PSF as well as recent trends. 30 Main/9A happens to be the writer's personal favorite and the one I would bet sells next. The data suggests that apartments that do not have spectacular views appear to be overpriced.