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STOP SIGNS or GREEN lights?

A look at the key issues industry players are watching to see whether the NYC residential market is headed for doom or more boom

By Janna Herron

It isn't just all those new residential towers that are reaching for the sky. The average sales price for a Manhattan apartment soared almost 31 percent higher in the first quarter, compared with the first three months of 2013.

While that's good news for anyone who recently sold a residential property, those looking to sell in the near future may be feeling antsy over whether the good times can keep on rolling.

Factors like low inventory, rising land prices and strong buyer demand suggest that prices could climb even higher and sales could continue apace.

But some in the industry are wondering how long this heated residential climate can last.

As industry experts attempt to read the real estate tea leaves, some say they are beginning to see troubling trends in the residential market, problems that could foreshadow a softening.

Others say they don't see any end to the current market surge in sight.

Read on to see which issues the experts identified as the most indicative of which way the market winds will blow in the coming months.

Developer anxiety?

While it may seem that everything is going strong when it comes to the construction of new residential projects in New York, some developers are starting to show jitters. Often seen as ever-optimistic, developers are beginning to hedge their bets and are displaying more urgency in selling their new developments than before.

Nancy Packes, owner of Nancy Packes Inc. Signature Marketing Services, a sales brokerage for new developments, said she is seeing more developers marketing properties as soon as a project is approved. That suggests that developers would rather ink sales at today's prices, when they know the market is strong. If they truly thought New York City prices would continue rising, Packes said, they would wait to start sales once their buildings were finished, when they could sell at tomorrow's higher prices. "But developers are thinking that there is no advantage to waiting," she said.

Developers are also changing their strategies to sell their projects. Andy Gerringer, managing director at the Marketing Directors, a new development marketing firm, said that several developers have switched from using in-house brokers to hiring outside agents. Both Macklowe Properties, which brought in Douglas Elliman at 432 Park Avenue, and Related Companies, which is collaborating with Corcoran Sunshine on the residential units at Hudson

> "Our office is getting calls from developers regarding their sites, asking if we have clients to bring over. Certainly, those are signs we haven't seen before."
>
> **ANDY GERRINGER, THE MARKETING DIRECTORS**

Yards, have done so. "If things are going swimmingly, you don't have to switch anything out," Gerringer said.

He is also seeing developers take roadshows abroad to promote buildings to potential buyers, a move he said is a change from the past, when foreign buyers would come here. "Before, they were coming here, and you didn't have to do a roadshow," he said.

In other instances, developers are calling brokerage firms to drum up business, he said. "Our office is getting calls from developers regarding their sites, asking if we have clients to bring over," he said. "Certainly, those are signs we haven't seen before."

STOP "Crazier than 2007"

The market seems to be too good to be true, at least for sellers. The low inventory is, of course, causing a ruckus among buyers: Above-asking offers, bidding wars, contingency waivers and all-cash deals. And many buyers are left out, frustrated by the market.

"There are definitely many stories from potential buyers bidding above the asking price on multiple apartments and not getting anything," said Doug Perlson, founder and CEO of RealDirect, a brokerage firm with a web-based listing and marketing platform. "That's the biggest red flag and the most problematic."

Noah Rosenblatt, founder and publisher of UrbanDigs.com, a real estate analytics and consulting firm as well as a brokerage, noted that some of his clients are walking away from the market and renting for a year before trying again (see related story on page 26). Others simply are overbidding to win properties. And sellers aren't making it any easier.

"For almost seven out of 10 deals, having a financing contingency is a non-starter. Sellers won't even look at it," he said. "This is a crazier market than in 2007."

How long can prices keep going up? As long as New Yorkers have incomes to pay higher asking prices, said Dan Fasulo, managing director of Real Capital Analytics. In other words, not forever.

"It is safe to say that it's not sustainable for New York to continuously get double-digit increases in values," said Fasulo. "The law of big numbers will hit you in the head sometime."

STOP The credit clamp

Loose credit was largely to blame for the market crash last time around; this time, it could be just the opposite phenomenon that constrains the market. Banks, of course, clamped down on residential lending in the aftermath of the 2008 financial collapse, and while things have eased, it's no secret that it's still not easy to secure a mortgage.

"The whole financing scene has changed. You have really tight credit," said Dottie Herman, CEO of Douglas Elliman. "People have to put more money down to get financing. That's why we've had mostly cash deals."

According to the Federal Reserve's most recent lender survey, bank standards are still tight, and fewer people are looking to apply for home loans. Miller said he expects credit requirements to remain strict for the next few years, as lenders abide by new mortgage rules that kicked in this year.

Tight credit is prompting would-be sellers to hold back on listing their apartments, because they won't qualify for a mortgage to trade up, said Miller, adding that the issue is helping to keep inventory artificially low.


Dan Fasulo, Real Capital Analytics


176 East 64th Street, which recently sold for $15.8 million


Nancy Packes

"When you're not seeing a lot of new properties coming on the market, it's a potential turn-off for buyers and creates a surge in prices. Some buyers will step up and pay what they need to pay to win a bidding war, while others will sit it out," said RealDirect's Perlson. "That's our biggest concern and what we watch closely."

STOP Warning signs in Brooklyn

Miller said that when he's gauging whether instability is looming in the market, he looks to see whether there's a "sharp decline in sales activity while prices are rising rapidly." When that happens, it's a sign of pending trouble because prices will eventually follow sales activity.

In Brooklyn, the numbers have been heading in that direction. While prices in the borough continued to climb recently, albeit only slightly, the number of transactions fell. The total number of sales in Brooklyn dropped 2.2 percent in the first quarter from a year ago, even as the median sales price edged up 1 percent, according to a report from Miller. Compared with 2013's fourth quarter, the changes were more dramatic. Sales volume fell 10.3 percent, and the median sales price slid 8.8 percent.

Yet most brokers blame the lack of inventory for the drop in sales. Listing inventory was down year-over-year and quarter-over-quarter, according to Miller's report.

"If a broker didn't have a good first quarter, it's because they didn't have any inventory to sell," said Karen Heyman, a top-producing broker in Brooklyn for Sotheby's. "There isn't a lot of product."

Heyman also noted that some sales contracts on new developments won't close until next year or even 2016, when the projects are done, meaning that recent deals may not be getting counted yet.

One reason for the low inventory levels is that the market is still feeling the effects of the commercial credit crunch during the recession. Although there is a lot of new residential developments underway in both Manhattan and Brooklyn, developers haven't been able to keep pace with demand because new construction came to a near-standstill after financing dried up in 2008, said Packes. The spigot is open now, but developers are a few steps behind the demand.

In addition, some argue that the "polar vortex" may be to blame for the recent softening in the Brooklyn numbers. David Maundrell, founder and president of Aptsandlofts.com, a residential brokerage that focuses on Brooklyn and Long Island City, said since the weather has warmed up, new listings are starting to hit the market and open-house traffic is going strong.

No Russian retreat

Just as Russian President Vladimir Putin refuses to retreat from Crimea, Russian homebuyers in New York are sticking with the city's condo market despite escalating tension between the U.S. and Russia over the latter's interference in Ukraine, sources said. Leaving aside reports that Russian billionaire Roman Abramovich is scaling back his search for a trophy New York property after his $75 million purchase at 828 Fifth Avenue was put on hold because of a dispute with the seller, the majority of Russian buyers are still as active as ever.

"We just closed a deal with a Russian couple last week," said Elizabeth Lee Sample, a top broker with Sotheby's

International Realty who works with many Russian buyers. Sample said she spoke to one client from Moscow about Crimea and "his attitude was that the Ukraine is part of Russia, so some of this is expected from their eyes."

Wealthy Russians have, of course, been buying some of the city's priciest luxury condos, and, in turn, helping to push up prices. Most notably, in 2011, Russian billionaire Dmitry Rybolovlev bought an $88 million penthouse at 15 Central Park West from former Citigroup chairman Sandy Weill, shattering records and garnering international headlines in the process.

"Clients continue to ask about new projects. There is still significant interest in the very high-end projects," said Ed Mermelstein, a real estate attorney who also works with many Russian buyers. "They want to be the first ones in. That hasn't changed in any way."

Mermelstein also noted that there is an increased interest among many Russian buyers to acquire residences worth $10 million or less in New York, which are easier to rent. Still others are considering selling their assets, not because of political reasons, but to capitalize on rising prices in the market, he said.

Pricey melting pot

Forget wealthy Russians. The New York City market is, of course, flooded with a world of other international millionaires and billionaires who want to own a piece of New York real estate.

"Compared with other international markets like Hong Kong and London, it's still very affordable to buy here," said Dylan Pichulik, CEO of XL Real Property Management. "We're seeing a lot of activity from investors from the Ukraine and Venezuela who are scared of what is happening in their home countries and want to put their money in assets that are protected."

Others back up that point. New York ranked No. 2 for top global cities for foreign investment, according to a survey of foreign investors from the Association of Foreign Investors in Real Estate.

Not only are foreign investors buying high-end trophy properties, which they've been doing for a long time, but now they are also "going into secondary or tertiary markets and buying into Gowanus, South Williamsburg and Harlem," Pichulik said.

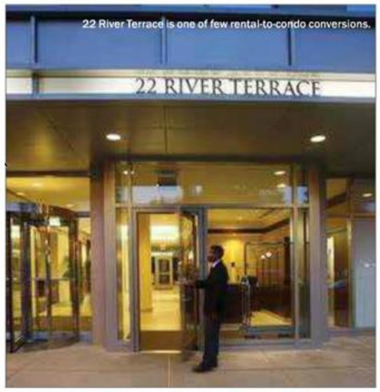
Then, there are the Chinese, such as the woman who paid $6.5 million last year for a unit at the unfinished One57 in Midtown for her two-year-old daughter. The interesting market twist is that Chinese lenders are also financing the construction of a number of large New York condo projects, and, in return, those units are being sold back to individual Chinese investors, said Packes.

"The [developers] get rid of a tremendous amount of product that way," she said.

Wall Street to Silicon Alley

Not long ago, any dip in the stock market — like the one that took place last month — would have sent panic through the high-end New York City residential brokerage community. But these days every retrenchment in stocks seems to be followed by a rally.

While the Standard and Poor's 500 dropped 2.1 percent last month, for example, the broad stock market index



22 River Terrace is one of few rental-to-condo conversions.


Noah Rosenblatt


This apartment at 1016 Fifth Avenue recently sold for nearly $7 million.

rebounded from that loss and is again trading near record highs, following a 30 percent leap in 2013, the biggest gain since 1997.

> **"It is safe to say that it's not sustainable for New York to continuously get double-digit increases in values. The law of big numbers will hit you in the head sometime."**
>
> **DAN FASULO, REAL CAPITAL ANALYTICS**

"The stock market is not going down," said Rosenblatt. "Every time it goes down, it comes right back and makes new highs."

That strength helps the New York residential market, since the financial industry employs an impressive 165,000 workers in the city, according to the state comptroller. While that's 13 percent fewer workers than in 2008, when both Bear Stearns and Lehman Brothers collapsed, last year's Wall Street bonuses were at their highest level since the financial meltdown. Clocking in at an average of $164,530 — the third highest on record — the bonus level represented a 15 percent increase over 2012, according to the comptroller's estimates.

At the same time, the city is diversifying its economy and moving away from its dependence on Wall Street, most notably in the technology sector. Employment in the industry has jumped 21 percent since 2006, to about 150,000 workers, according to the Partnership for New York City, which represents large businesses.

"We're seeing a robust job market, which is always good for real estate, with the new tech sector adding well-paid jobs to the city economy," said RealDirect's Perlson.

And while tech growth is getting the headlines, New York is also seeing gains in other high-paying fields, including jobs in hospitals, which increased nearly 3 percent in the past year, according to the state Department of Labor.

Buying still better than renting

Another positive sign for the residential sales market is that the rent-versus-buy scenario still favors purchases. Simply put, that is a sign that demand in the sales market is healthy.

One of the reasons for that is that rental prices in New York remain high, especially for desirable properties, said Perlson.

Trulia's "Rent vs. Buy" index, released in February, showed that it is 22 percent cheaper to buy than rent in New York. The index also noted that rates on a 30-year fixed mortgage would have to reach 7.2 percent, up 2.8 percentage points from where they are now, to tip the scales in favor of renting.

That may seem counter-intuitive, given the eye-popping numbers that high-profile luxury properties command. But for more typical homes, the calculus still works out in favor of purchases, helping to drive demand for residential sales.

That demand is evident from the frenetic pace of sales. Even with historically low inventory leaving prospective buyers with fewer choices, Miller's first-quarter report showed the number of sales in Manhattan rose 35 percent from the same period in 2013, while the average time on the market dropped by 17 days.

The relatively small amount of rental-to-condo conversions can also be interpreted as a positive sign for the sales market. Right now, Real Capital's Fasulo is seeing just a "trickle" of properties sold for conversion from rent to condo, such as the Wellington at 200 East 62nd Street, 88 Lexington Avenue and 22 River Terrace, whereas the pace was much faster before the housing bubble burst.

A mass wave of condo conversions would indicate that "condo prices have gotten to the point where converters are willing to pay more for a property than an owner," he said. "Developers are always looking for market inefficiency." TRD