

THE STATE OF THE MARKET

A Conversation with Elizabeth Stribling

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Elizabeth F. Stribling is the President of Stribling & Associates. **Elizabeth Ann Stribling-Kivlan** is the Executive Vice President, Director of Marketing & Business Development at Stribling. Elizabeth Ann has agreed to pose questions about today's New York Residential Market to her mother.

Q. Amidst world economic turmoil and the recent roller coaster fluctuations in the stock market, word is out that the New York City residential market is still good. What's happening?

A. Once again, New York City has proven to be an island unto itself. The third quarter of 2011 showed a stable, flat market with a strong volume of sales. The number of sales increased by 16.7 percent from the same period last year, and 17.2 percent from the prior quarter, reaching 3,106 sales in the third quarter, according to the appraisal firm of Miller Samuel. This represented the highest volume of sales since the third quarter of 2007. At the same time, overall prices were steady with no noticeable change from the previous year. According to their survey, the average price of a Manhattan apartment in this last quarter was \$1.46 million, down just 1.5 percent from the same quarter a year ago. Similarly, the median sale was \$911,333, hardly changed from \$914,000 in the same period of 2010. These statistics may not be sexy, headline-breaking news, but they are extremely reassuring given the uncertainties of the present world.

Q. What accounts for these statistics? I have read that luxury transactions are bolstering the market.

A. Confidence to purchase luxury property has returned to our marketplace. The sale of luxury units, those in the top 10 percent of all deals by price, increased 17 percent last quarter from the same quarter a year ago, to a total of 311 units, according to the same source. Other market reports noted that the price of three or more bedroom apartments on the Upper East Side soared by almost 30 percent to approximately \$4.5 million. Clearly, these high end sales have raised the overall average sales price.

We are also noting eye-popping sales prices, as chronicled in the "Big Ticket" real estate column of *The New York Times*, which features each week's highest recorded residential closing. Recently, this column featured a Fifth Avenue three-bedroom condominium with a \$20 million price tag. However, that same apartment would have probably fetched an additional 20 percent or more at the peak of the market in the spring of 2008. On the other hand, there have been notable exceptions in which lucky sellers have actually made a profit on recent purchases. The luxury

market can be fickle. Overall, confidence to buy luxury property has increased while the actual luxury price points have gone down.

Q. What about inventory? Doesn't inventory dictate price?

A. Inventory levels are now below the norm. In the third quarter, there were 7,726 apartments for sale, down almost five percent from the year-earlier period. According to Miller Samuel, this is 2.7 percent below the five-year average for this quarter of 7,937, and just above the ten-year quarterly average of 7,413. Although supply is down, and there is a healthy, if still nervous, demand for property, fears about the global economy, employment, and the ongoing national housing crisis are all serving to prevent the usual rise in prices as supply diminishes.



Q. What about the much-publicized glut of apartments in new development offerings? What's happening to the famous "shadow inventory" of unreleased units or units that were rented until an upswing in the market occurred?

A. In fact, as units are steadily being sold in condominium development projects in today's more stable market, a reverse problem may occur: a lack of new condominium product in the upcoming years. With construction and loan financing still extremely difficult to obtain, new condominium construction has ground to a virtual halt in the past two years. By the end of 2011, less than 1,200 new condominium units will have been placed on the market, down from 1,767 in 2010, and dramatically below the avalanche of over 8,500 such units offered in the heady year of 2007. As many of the newly planned condominium development projects will be on the small size with fewer than

100 units, this level of future new condominium generation should also serve to keep a further lid on inventory.

Q. Speaking of new condominium offerings on the horizon, I know that Stribling Marketing Associates will be handling an exceptional new condominium conversion in the heart of prime Greenwich Village on West 12th Street. Please share the details.

A. Indeed, One Thirty West 12 is the epitome of a high-end boutique condominium development. The focus has been on achieving a balance between the original Art Deco glamour of the building and the best of today's state-of-the-art systems. Under the direction of the Rudin family, the architectural firm of Cook & Fox Architects, with experience in historical restoration, has teamed up with the design team of Jed Johnson Associates to create the best of the old and the new on one of Greenwich Village's most beautiful blocks. With a rooftop terrace and garden, there will be 42 units with one to four bedrooms ranging from \$1.395 million to \$12.85 million. For those who dream of the ease of a modern lifestyle in fabled Greenwich Village, these condominiums should fill a niche void.

Q. I understand that the demand for condominiums is growing steadily. Rumor also has it that foreigners are snapping up condominiums all over town due to a weak dollar. Is this the case?

A. In the third quarter of 2011, condominium sales soared to 1,789 units versus 1,341 a year earlier. Meanwhile, cooperative sales lagged behind at 1,317 units in the 2011 third quarter, which was virtually the same as 1,320 a year earlier.

Indeed, as a result of a weak dollar against many foreign currencies, lower local prices versus other major European and Asian capitals, and the belief that New York residential property offers a safe haven, foreigners are flooding our marketplace. As they prefer condominium ownership, which does not demand the full financial disclosure sought by cooperative boards, this has accelerated the steady progression of condominium over cooperative sales recently.

Q. Have foreign buyers always played an important role in the New York City residential marketplace? Didn't you just talk about this at a property seminar hosted by Savills, the London based international property firm, of which Stribling is the New York City Associate?

A. Yes, Savills gave a seminar on "Ten Global Cities and the International Buyer" in London last month. It was held in the stunning, soaring, cast-iron hall at the amazingly renovated, late Victorian railroad hotel at Saint Pancras Station. As I prepared my speech on the presence of foreign buyers in New York City, I was astonished to remember how different the residential landscape used to be in our hometown.

Thirty-five years ago, the composition of our property market was completely different. With the exception of the St. Tropez at 340 East 64th Street, a pioneer condominium, practically 100 percent of residential apartment ownership was cooperative housing. However, in 1976, Aristotle Onassis financed

the building of the Olympic Tower at 641 Fifth Avenue at 51st Street, overlooking Saint Patrick's Cathedral. You will laugh to hear that brokers at that time had no idea what a condominium was, and thought that this Greek was a little crazy to think New Yorkers would actually buy one! However, jet-set Europeans and South Americans flocked to this glossy glass tower, and our property market was forever changed.

Freed of the constraints of the full financial disclosure required by cooperative boards, these foreign buyers, always known for their desire for privacy, could now purchase in New York City. In 1980, Donald Trump built Trump Tower at 721 Fifth Avenue at 58th Street, next to Tiffany & Company. This was followed soon after by The Museum Tower, on West 53rd Street between Fifth and Sixth Avenues, next to the Museum of Modern Art. With these first luxury glass skyscrapers, condominium ownership as an alternative choice of housing firmly established itself in the Big Apple.

Q. Did this happen quickly?

A. Change is always gradual, and of course these new condominiums had to either be built, or converted from older buildings, such as the venerable Parc Vendome on West 56th and West 57th Streets. However, from 1976 on, practically all new development offerings were condos, except in land-lease situations where lack of ownership of the actual land prohibited a condominium plan. By 1985, condominium ownership comprised 15 percent of all residential ownership, with cooperatives at 85 percent. Every decade since has seen a five percent increase in the percentage of condominium ownership: to 20 percent in 1995 and 25 percent in 2005. The trend continues, and 30 percent should be attained shortly.

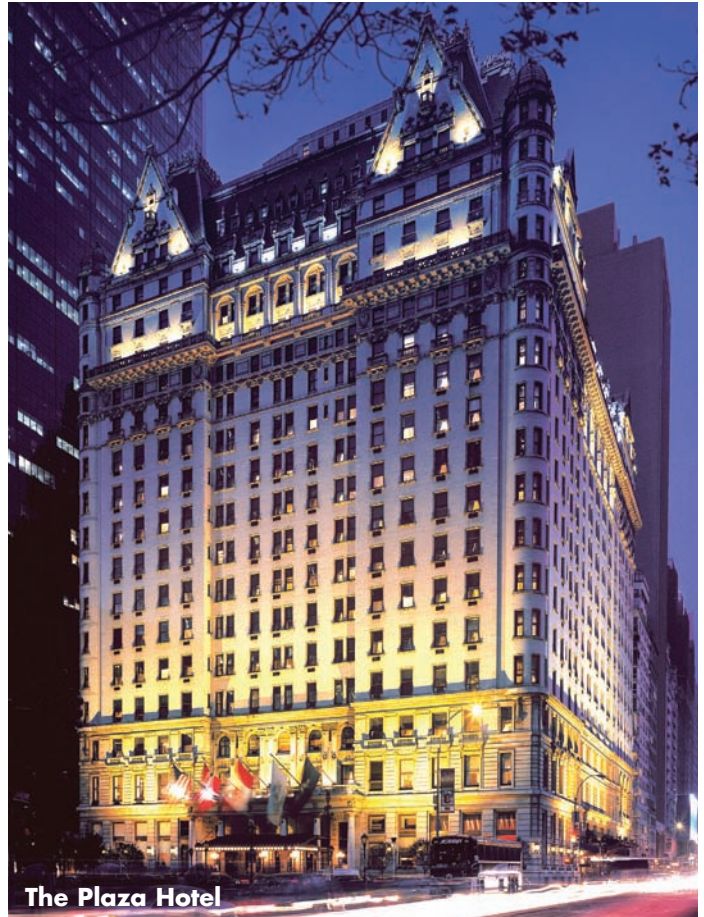
Today, foreigners are attracted to traditional older classic buildings, recently converted to condominiums, as well as dazzling glass modern towers. I should mention that they also favor palatial townhouses as trophy purchases.

Q. Have the nationalities of foreign buyers changed over the years?

A. Absolutely. As nations prosper or decline, the foreign players just change. As I mentioned, in the early years of condominium offerings, it was the sophisticated European and South American affluent international travelers who were the buyers. The end of the 1980's saw the arrival of the Japanese who purchased both commercial as well as residential property. In the 1990's, Middle Easterners and Russians, awash in new oil and gas money, began to buy property in Gotham. Just after the Millennium, more Europeans, due to a declining dollar, and especially the Irish, due to their spectacular national prosperity at that time, were the buyers of the moment. Today, in 2011, we see an increasing variety of foreign purchasers. The Chinese prefer to buy condominium apartments for their own family's use near colleges such as Columbia or New York University; they spend around \$1.5 million. South Americans from Argentina and Brazil favor glass towers in the art areas surrounding the High Line and in Soho; they spend \$1.5 to \$2.5 million and more for show-stopping views and amenities. Russians tend to swoop up trophy apartments such as a recent \$48 million condominium purchase at The Private Residences at The Plaza Hotel.

Q. What are the reasons that motivate these foreign buyers to purchase today in New York City?

A. New York City is not only seen as a prime location but also as a safe and clean place. It is also perceived as more affordable than many other world capitals. Foreigners appreciate the heightened security in New York City, especially in the decade after 9/11, and this is a crucial factor for them. Of course, a cheaper dollar also makes our property more affordable. In addition, the USA is seen as a safe haven for investment. As a result, we have a base of approximately 15 percent of all purchases being made by foreigners; this can swell much higher in a peak year, as it did in 2007. Today, approximately one-third of all new condominium units are bought by foreigners.



Q. Changing the subject, what about the rental market? Up or down?

A. The overall rental market is strong, and rental prices have rebounded. Gone are the days of landlord incentives. As rents have strengthened, entry level sales have also increased in the third quarter of 2011, reflecting a reaction to higher rents combined with lower interest rates. Miller Samuel notes a 26.7 percent increase in the sales volume of studios and one-bedroom apartments from the same time last year, while cautioning that the 1,500 resulting sales were more of a return to historic normal levels than a boom.

At the same time, very high priced rentals of \$20,000 to \$50,000 a month for private townhouses or sprawling apartments are taking longer to occur than last spring.

Q. In conclusion, it sounds like the glass is more than just half full in the New York City residential landscape. What's your prediction for the future? Are there threats on the horizon?

A. The overall New York City property outlook remains good if not excellent. We have seen virtually no foreclosures in Manhattan. We have a lack of quality well-priced inventory. The luxury market is rebounding in volume if not consistently in terms of price. Interest rates are at record lows.

However, credit remains tight, for end users and for new development. Unemployment remains high with very little hiring. There is uncertainty in overall financial markets, with the looming

shadow of both a sovereign debt crisis and concerns over the fate of the euro. Word has it that painful job cuts are coming to Wall Street. The United States housing market remains distressed with ongoing foreclosures, and the overall American economy is deeply troubled. Who can ignore all of the above?

And yet, prices have remained stable in New York City in the past year. Volume of sales is increasing. New York residential property is seen as both affordable and as a safe haven by foreigners. In contrast to the property market in the rest of the country, it appears that we are not in a bad place at all. Although I do not predict that our prices will rise noticeably in the next year, neither do I, barring a world disaster, see them decreasing. May our market simply continue on its recent solid, steady track.



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