New York Quarterly Real Estate Newsletter

Q4 2014

The key takeaways from the Manhattan Q4 2014 Corcoran sales report*:

- **Inventory Challenges.** Inventory has grown by 20% since last year, but almost entirely on the basis of condo availability and the introduction of significant high-end new development products. The number of co-op listings has remained flat since Q2 2011, and the market is significantly under-supplied below $2M.

- **Contract signings are up.** Signed contracts rose 3% versus last year. A lack of affordable inventory sent buyers to the co-op market. Co-ops accounted 58% of signed contracts, their highest share since Q3 2009.

- **High-end sales helped value reach new peak.** Thanks to activity at the high-end, the average price per square foot increased to $1,303, up 6% versus Q4 2013.

While there continues to be upward movement in prices – thanks to strong high-end sales – we are seeing significant pent-up demand for quality homes in the one- and two-bedroom categories. The upcoming inventory is not feeding those market segments, and our agents report overwhelming turnout at open houses for them when reasonably priced properties actually do go up for sale.

*Courtesy of Corcoran

Digging into Inventories

The overall market is still undersupplied with only 5,912 total listings for 3,227 sales* and inventory level 52% below its 2009 post recession peak. The number of sales of new development at all price points in Manhattan dropped 25% between 2013 and 2014 to total 1,785. These numbers sound gloomy but less so, when put in perspective.

First, we are in a blind spot because the contracts signed on new developments not closing until later 2015 early 2016 are not reflected in the number of sales. These include sold out 150 Charles and 95% sold Herzog & De Meuron 56 Leonard among others.

On top of that, the median asking price for new development units is 128% higher than the asking price for the overall market. These units stay on the market 80 days versus 56 days for resale – according to Streeteasy. Furthermore, Corcoran Sunshine, the largest New York real estate marketing company by number of new developments, observed that the activity were lead by ultra luxury products growing across the city: Downtown with the stellar 56 Leonard and 30 Park Place; and midtown with the rise of 57th Street billionaires' row including One57, The Baccarat, Jean Nouvel's 53W53, 432 Park Avenue, 50 UN Plaza.

Finally, 41% of today's inventory is above $2M while only 21% of closed sales fell in this range during the 4th Quarter. The lack of entry-level and mid-market luxury product defined as products priced below $2,300/ft have pushed buyers to look at other alternatives (co-ops/other boroughs/rentals).

With eyes and the press focused on these glowing ultra-luxury developments, Kelly Kennedy Mack, President of the Corcoran Sunshine Group reveals that "there is a misperception that the market is swinging drastically toward high end"; a statement backed up by the current pipeline of over 3,000 units coming into the market in the below $2,300/sf segment or so called "affordable luxury" – an oxymoron which characterizes the trend represented by the segment that has been the most underserved over the past years.

*(rule of thumb considers twice as many listings as quarterly sales to be the equilibrium)

New Developments

What is a residential New Development?

The announcement of a New Development symbolizes the upcoming of new residential units on the market. It can take the form of a ground up construction, or a conversion such as a rental or an office building to be converted into residential condo for instance.

Most of the New Developments start selling even before the projects is completed, which refers to buying/selling on floor plans. There are multiple advantages of buying in a New Development such as taking advantage of lower than market rate prices, moving in a brand new property, by-passing on the condominium board package, and sometimes benefiting from tax-abatements. Some considerations to keep in mind are in regards to the NYS and NYC transfers taxes (1.4-1.825% of the purchase price) and developers' lawyer's fees that are usually paid by the buyer. Depending on the market and project, these can be used as negotiation tools. Another consideration that sometimes arise post-closing is the possibility of misconception or construction defects that can't be anticipated; a reason why checking the pedigree of a developer and construction company is critical when evaluating a New Development.

When the press or marketers talk about New Development units coming into the market, there is little information regarding the stages these developments are and which segments of the market are concerned. The stages usually involved in a new development are as follow:

- Closings – Closings have commenced, typically immediate occupancy
- Pre-Sales – Contracts can be signed by the building is not yet complete
- Soft Launch – No active listings on the market but offering plan is accepted and sales have reportedly commenced
- OP Accepted – Offering plan accepted for filing with the Attorney General, sales can commenced
- OP submitted – Offering plan submitted for review by the Attorney General; no CPS-1 has been filed
- CPS-1 accepted by the Attorney General, marketing can commence, letters of intent can be taken but sales cannot yet begin
- CPS-1 submitted

Some new developments can experience pre-sales and closings within the same year. However, and most frequently for ground up constructions, contracts signing can happen one year and close 12-36 months after.

The variety of products available now and in the next months is such that it is critical to differentiate the price segments and categories in which the New Developments belong:

- Entry Level: <$1,700/ft
- Mid-Market: $1,700-$2,300/ft
- Luxury: $2,300-$3,300/ft
- Super Luxury: $3,300-$5,000/ft
- Hyper Luxury: from $5,000/ft

In order to better navigate what is happening in the New York City, I compiled the list of all the new developments coming into the market by price segments along with their respective stages.

	Entry level <$1,700	Mid Market $1,700-2,300	Luxury $2,300-3,300	Super Luxury $3,300-5,000	Ultra Luxury $5,000 and up
Closings	1,301	1,018	247	224	92
Pre-Sale	1,051	1,188	1,458	653	142
OP Accepted	284	208	47	10	-
OP Submitted	73	551	277	53	279
CPS-1	-	3	-	-	-
Total	**2709**	**2968**	**2029**	**940**	**513**

Among the entry level and mid market products, about a 1/3 of the inventory is in closing stages – an opportunity to see the products before purchasing and moving in shortly after such as the West Village Printing House and the Upper East Side Manhattan House. Another 1/3 is in pre-sale stages and would require some time before closing and moving. Two great products are rental to condo conversions CarnegiePark in Carnegie Hill and 212 Warren, a waterfront Battery Park City. Both developments offer 2-bed apartments in the $1.3-$2M ranges. The last 1/3 of this segment's category is expected to be in pre-sale stages in 2Q-3Q 2015 and include projects such One West End and 88-90 Lexington Avenue.

In the luxury segment, some of the 1,458 Luxury units in pre-sale have already contracts signed with almost sold out project such as 56 Leonard (95% of the 145 units) and 70% sold out 505 West 19th Street.

The Super Luxury pre-sale is also healthy with fast pace sales activity on stellar products: more than 50% of the 149 units at 30 Park Place sold within two months of opening; 150 Charles 32 units entered in contract in just a month back in 2013 at the time the market was already starving of new Super Luxury development. Only 300 units or so are expected to hit the market in the next 12-24 months and will include Upper West Side rental conversion The Astor and Midtown new construction The Bryant located 20 West 40th Street.

The Ultra Luxury market has seen more developments in the process giving more options to a very demanding clientele. None the less, the record for a single home was recently broken at One57 with the sale of a $100.5M condo, following Bill Ackman's purchase of a $90M condo in the same building few months ago.

Brooklyn is calling…

…But is there anyone to answer? Thanks to a better price point and an increasing interest in Brooklyn's diverse neighborhoods; the borough has been experiencing a classic seller's market symbolized by **strong demand but short supply**. Thanks to the inventory shortage, transactions fell 4% versus Q4 13. At the same time, prices rose to their highest point in seven years; the price per square foot in Brooklyn is now $789, up 15% from the prior year. The **south and east of Prospect Park (Bed-Stuy/Crown Heights/Bushwick) have experienced dramatic price growth.** With **fewer new developments** available in Brooklyn and increase enthusiasm for the borough the upward trend of prices is not near its end. For a detailed report, please refer to the Brooklyn Q4 2014 Corcoran sales report

Among the 1,526 New Developments units, Williamsburg dominates the offering with 6 projects counting 319 units, among which 216 are for the Oosten, a project that is currently selling (over 30% sold) and will close later in 2015/early 2016. Downtown Brooklyn 388 Bridge street 144 units condo is over 50% sold and closings have started. In Prospect Heights, the most awaited 278 unit condo at 550 Vanderbilt is scheduled to open sales during 2Q 2015, while the 128 Flank designed units at The Boerum (in Boerum Hill), already started sales with closings expected in 2016.

For more information and viewings of New Developments, please contact me at fmaingois@corcoran.com.