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How bad can it be?

Experts envision worst-case scenarios for NYC

By The Real Deal Staff

With dire prognostications for the U.S. real estate market multiplying like a virus, it's no surprise that the impregnability of Manhattan's market is being questioned. And though no one is predicting apocalypse along the lines of recent movies such as "I Am Legend" or "Cloverfield," Manhattanites are wrestling with some rather grim predictions of late.

Worst-case scenarios range from predictions of price depressions lasting for years, to sales drops as much as 30 percent in the suburbs, to a slowing demand from a group of buyers that the city has grown to depend on in recent years: Europeans.

Still, if it is any comfort to New Yorkers, the one thing experts appear to agree on is that the city will still suffer less than the rest of the country.

Until recently, the bad news in the real estate world had a national tenor. In September 2007, Moody's Investors Service, the credit-rating company, was drawing a picture of a national housing slump predicted to last until 2009. In December, the firm announced that housing prices would bottom out in early 2009 — dropping an average of well over 10 percent from their peak—and recovery would be sluggish.

Then, what had been uncomfortable but distant news began to hit closer to home. In light of job layoffs announced in the financial services industry and a national recession predicted by investment bank Goldman Sachs, analysts in the metropolitan region have been offering forecasts full of gloom. For instance, Jeffrey Otteau, New Jersey's biggest appraiser, said that declining inventory due to potential sellers pulling their homes off the market in frustration has caused New Jersey home prices to fall, with a recovery to 2005 price levels unlikely until as far out as 2014.

On Long Island, economist Pearl Kamer does not have quite as bleak an outlook, but has said she anticipates an average plummet in home prices of 10 to 15 percent a year until 2009 or 2010, with cumulative declines reaching as much as 30 percent for homes in the $750,000 to $1.2 million range.

And even in Manhattan itself, Dottie Herman, president and chief executive of Prudential Douglas Elliman, one of the two largest residential brokerages in Manhattan, has grimly predicted that home prices will remain flat in 2008.

It seems that the nattering nabobs of negativity will not be quieted.

"The worst-case scenario is that there is less demand for condominiums and co-ops and rental apartments, especially because of the massive loss of jobs that appears to be on the horizon," said Robert Von Ancken, an executive managing director and appraiser with the commercial brokerage Grubb & Ellis, which also keeps tabs on residential real estate. "Because the economies in Europe are not doing as well, you may have less European buyers coming to buy up condominiums."

When will it end?

The fact that a downside is even being contemplated and discussed means New Yorkers may be in for a dismal ride for a time. The question seems to be, "How long?"

"Of the alternatives of how you could look at Manhattan — that it will go through the same thing as the rest of the country but less, that it will go through it less, or that it won't go through it at all—I'm of a mind that it will go through it less,"

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said Barry Hersh, the associate director of the Steven L. Newman Real Estate Institute at Baruch College/City University of New York. Manhattan will see a slowing in the number of home sales, which has already begun, along with a drop in home prices, he said.

"I think at a bare minimum, it will last most of this year, and I think probably, more realistically, into 2009," Hersh said. "I think even the rental market will not be zooming."

Von Ancken said that he expects an anticipated national economic recession to have a moderate effect in New York City, which may have to wade through, at its extreme, a three-year quagmire.

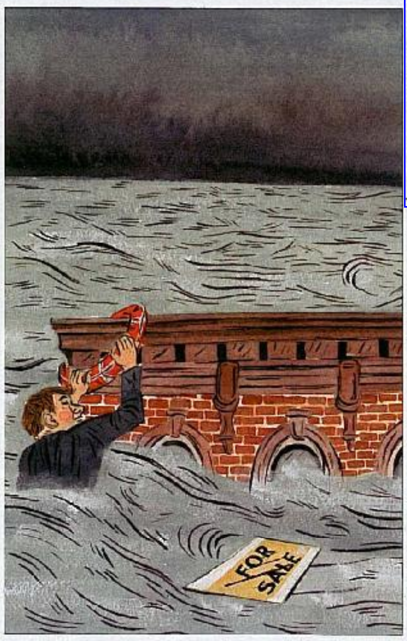
"The worst it could be is about a three-year problem," he said. "I think there will be a recession, but I think it will be mild in New York City. We had a recession in the year 2000 that was very mild, and it took us about three years to recover."

Lawrence Longua, a clinical associate professor with New York University's Real Estate Institute, who has a focus on commercial real estate, said that he is considered to be the "in-house pessimist." While he said that he doesn't foresee a revival of the booming market conditions seen in recent years, any downturn should work itself out rather quickly.

"I don't think we're going to see a return to what we've had over the last couple of years, but I think we're going to finally be a market in equilibrium probably in the second or third quarter of next year," Longua said.

The current residential market crisis was tied to falling home values among those buyers who had taken out subprime loans, which had been packaged for resale on secondary markets as securities but then began to have difficulty selling. Lenders began to withdraw capital as a result, tightening up loan standards, even in the commercial real estate market. A return to looser loan standards and freer flowing capital won't be what brings about market equilibrium, Longua said.

"I think there's a pricing crisis," he said. "Nobody knows what anything is worth, and the markets are in turmoil. Over time, things will sort themselves out, and people will be able to price risk a lot better than they have over the last couple of years."



Even if analysts have become more pessimistic about the New York City real estate market, some property developers, especially those who have properties on the market, remain undaunted. Robbie Antonio, the managing director of Antonio Development, which is currently marketing the high-end Centurion on 56th Street just west of Fifth Avenue, said apartments continue to sell well—with December being the best month yet at the complex—especially those that are larger and super-luxurious.

"In 2007, especially towards the latter half, a lot of people conjectured it would slow down in Manhattan and show a correlation with the remainder of the national market," Antonio said. "But 2007 really ended with an average Manhattan apartment price of record number, close to $1.4 million. Larger apartments sold very well, and the median sales price and average price per square foot not only maintained a steady consistency, but actually increased."

Analysts agreed that the higher-end apartments continue to defy gravity with rapidly increasing prices, but cheaper apartments, especially studios, have seen sales, and now prices, start to fall off.

"We noticed in our analysis that the rapid increase in pricing for condos and co-ops is only at the top end, meaning the very expensive ones, and the other apartments are sort of static or actually going down in price," Von Ancken said.

The other boroughs

While Manhattan is perceived as an island unto itself, literally and figuratively, the other four boroughs in New York City more truly reflect the woes of the national housing market, said Shimshon "Sam" Heskel, the executive vice president of HMS Associates, an appraiser based in Brooklyn that covers all five boroughs. Currently, neighborhoods such as East New York, Bushwick and Brownsville, which saw a high rate of subprime loans taken out during the housing boom, are now seeing the biggest declines, he said.

In other neighborhoods such as Williamsburg and Greenpoint, which had been gentrifying rapidly with a lot of new housing construction in the works, developers are anxious.

"In general, on the streets, everybody from brokers to developers, people are nervous," Heskel said. "There's uncertainty in the air. No one knows where it's heading."

As for his worst-case scenario, Heskel said, "My gut feeling is that we haven't reached the bottom yet. Interest rates are good now, but I think it's too little, too late." TRD