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Manhattan Residential Market Report *Fall 1998*

Featuring a Comparison of the Luxury Housing Markets
in Paris and New York



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Manhattan Residential Market Report

Fall 1998

This Year's New York Market

A Comparison of the Luxury Housing Markets in Paris and New York

Introduction

The essential characteristics of our market are not in the immediate present.

In this issue of the *Brown Harris Stevens Manhattan Residential Market Report*, we offer readers both an overview of this year's luxury housing market and a comparison of the Paris and New York markets.

In Manhattan, this year has been extraordinary. Price increases have intensified for all sizes of apartments, accompanied by a shortage of good listings in nearly every category. Multiple and full-asking-price offers have become common. This activity, and the possible impact of present uncertainty in the financial markets, are discussed in the first section of this report.

In the intensity of this year's events, it is easy to overlook that the essential characteristics of our market are not in the immediate present.

Instead, they reflect long term economic trends and a unique set of housing preferences that have been stable over a period of years. By examining real estate in another city, in this case Paris, we hope to convey not only the pleasure of Paris, but also an "outside" perspective on the market in New York.



Entry gates to the *Parc Monceau*

Cover Photo: The Eiffel Tower viewed from the Avenue Elisée Reclus, 7th arrondissement

All information furnished in this report is from sources deemed reliable and is submitted subject to errors, omissions and changes as needed.

We are pledged to the letter and spirit of U.S. policy for the achievement of equal housing opportunity throughout the Nation. We encourage and support an affirmative advertising and marketing program in which there are no barriers to obtaining housing because of race, color, religion, sex, handicap, familial status or national origin.

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Of course, none of the above is responsible for the accuracy of this report or for the opinions which it contains. These are solely the responsibility of Lawrence Sicular at Brown Harris Stevens Appraisal & Consulting, LLC.

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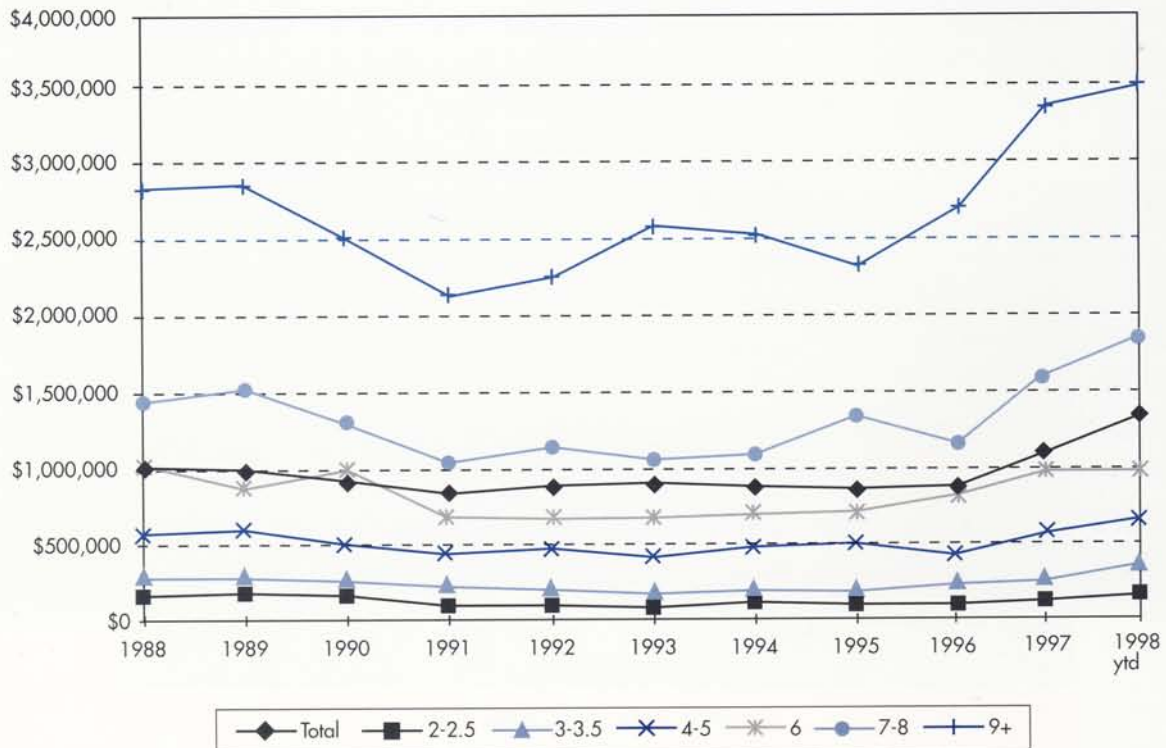


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Brown Harris Stevens Cooperative Index (1/1/88 - 9/10/98)

Year	Total	2-2.5 Rooms	3-3.5 Rooms	4-5 Rooms	6 Rooms	7-8 Rooms	9+ Rooms
1988	\$1,032,539	\$158,389	\$297,580	\$577,257	\$1,019,637	\$1,422,532	\$2,821,137
1989	\$1,006,288	\$177,235	\$296,932	\$571,338	\$867,390	\$1,513,900	\$2,845,191
1990	\$943,139	\$160,067	\$285,354	\$492,384	\$983,574	\$1,279,904	\$2,557,283
1991	\$844,103	\$106,682	\$243,185	\$449,678	\$672,707	\$1,025,152	\$2,128,816
1992	\$892,137	\$98,632	\$223,431	\$488,217	\$670,313	\$1,130,944	\$2,234,590
1993	\$874,558	\$85,143	\$194,900	\$415,094	\$685,313	\$1,048,736	\$2,345,545
1994	\$899,597	\$112,093	\$210,007	\$480,746	\$700,384	\$1,076,246	\$2,545,223
1995	\$851,793	\$109,019	\$212,067	\$476,877	\$712,033	\$1,303,379	\$2,299,002
1996	\$848,003	\$92,024	\$222,272	\$495,153	\$815,311	\$1,154,083	\$2,634,454
1997	\$1,092,849	\$111,443	\$236,301	\$530,890	\$963,625	\$1,563,201	\$3,368,412
1998 ytd	\$1,294,945	\$125,918	\$360,207	\$690,089	\$1,000,057	\$1,847,016	\$3,537,665



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This Year's New York Market

Significant Price Increases

The average sale price in Manhattan's prime market increased 52.7% from 1996 through September 10th, 1998.

On the preceding page, the *Brown Harris Stevens Cooperative Index*¹ tracks average prices for Manhattan's prime market² as a whole and for various sizes of apartments.

The average sale price in this market increased by 29% in 1997 and again by 18% in 1998, an overall

increase of 52.7%, from 1996 to 1998.

While averages can be misleading, an analysis of these figures by apartment-size category is similarly impressive. The average 3-3.5 room, one-bedroom price has increased by 62% since 1996. The 4-5 room average has increased by 39%. Six-room apartments are 22% higher. 7-8 room apartments are 55% higher, on average. The 9+ room average increased by 35%.

Clearly this has been a very powerful market, although even this year's averages have not matched their 1988 or 1989 peaks in the 2-2.5 or 6 room markets. The 3-3.5 room average is 21% higher than in 1988. The 7-8 room average is 22% higher than in 1989. The 9+ room average is 24% higher. These are not inflation-adjusted prices, indicating that in real terms market averages have not significantly exceeded previous peak levels.

Analysis of individual transactions is not consistent or easy to quantify, but it is frequently similarly impressive.

- On Central Park West, a six-room, park-view apartment is in contract at \$1,950,000 in unrenovated condition. The same apartment on a higher floor and renovated sold in 1996 at \$1,495,000.
- In a pre-war doorman building in Carnegie Hill, a six-room apartment is in contract at \$930,000. In 1997, there were two sales of the same apartment on lower floors at \$850,000 and \$795,000. In 1996, there were two sales in the same line on high and low floors in the \$600,000's.
- On Park Avenue, a 4,500-square-foot pre-war apartment is in contract for over \$4,000,000. Prior sales in

1997 and January, 1998, although on lower floors, were all under \$3,000,000.

Annual sales data suggests that a strong market does not necessarily mean a larger volume of transactions. The number of transactions in our database was higher in some of the earlier years of the market recovery than in 1997.³ During the past few years, Brown Harris Stevens brokers have continually complained of a shortage of listing inventory. Indeed, our sales records currently indicate 520 closed sales from January 1 to September 10, 1998. There were 574 transactions during the same period in 1997.

An Uncertain Forecast

At this writing, economists continue to predict a healthy national growth rate, at slightly under 2.4% for the balance of this year and next year.⁴ With this perspective, and still-reasonable real prices, values may continue to increase. On the other hand, uncertainty in the stock market and in international financial markets suggests other possible scenarios. The duration of these events and their impact on our real estate market is unknown. If there is a reaction, it may be delayed. Following the stock market correction of October, 1987, the average cooperative price in our market did not decline significantly until 1990.

September 1998

"He walked along the Seine, in the late summer afternoon, and made his way through those gray and silent streets of the Faubourg St. Germain, whose houses present to the outer world a face as impassive and as suggestive as the blank walls of Eastern seraglios. Newman thought it a queer way for rich people to live..."

"Our opinion," said Madame de Bellegarde, "is quite the same as at first — exactly. . . We really cannot reconcile ourselves to a commercial person."

Henry James, *The American* (1876)

¹ Although cooperative sales data is not publicly recorded, Brown Harris Stevens has unusually good access to sales data from our management, sales and appraisal companies, as well as from outside managing agents with whom we exchange data.

² The prime market is defined as the Upper East Side, from Fifth to Third Avenue, as well as Central Park West, Sutton Place, Beekman Place and select buildings on East End Avenue and Gracie Square.

³ 1994 (979 transactions), 1995 (782), 1996 (811), 1997 (785). Since Brown Harris Stevens does not have data on every sale in the prime market area, these conclusions should be viewed as probable but unproven.

⁴ "Clouds Begin to Curtain Blue-Sky U.S. Economy", Sylvia Nasar, *The New York Times*, August 15, 1998

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A Comparison of the Luxury Housing Markets in Paris and New York

Luxury housing in Paris and New York is similar. Both cities have markets in private houses, but these markets are relatively small. Both cities pioneered apartment house development, and their housing markets now primarily consist of apartments. In both Paris and Manhattan, apartment living is identified with sophistication and urbanity.

Despite these similarities and Paris' reputation as a costly city, luxury housing in Paris is relatively inexpensive. In Paris, the housing recession ended just last year. In Manhattan, the market recovery dates from 1993, and price increases intensified in 1997 and 1998. The highest prices in Paris are less than half the highest prices in New York. It is possible to live elegantly in Paris at much less cost than in Manhattan.

The highest prices in Paris are less than half the highest prices in New York.

Yet living elegantly in Paris is differently defined than in Manhattan. An older city in an older society, Paris' housing stock and its standards of luxury predate New York's 20th century definitions of status and prestige. In New York, it is clear that Fifth Avenue and Central Park West's pre-war doorman buildings are the most expensive addresses. In Paris, the best addresses are more dispersed, and the most desirable building types are more varied.

Virtually since this country's inception, and certainly since the Civil War, elites in the United States have identified themselves with middle class (*bourgeois*) capitalism. In New York, the values and the success of our economic system are reflected in a consensus as to which housing is the most desirable. France, in contrast, has not only a capitalist economy, but also a pre- and a post-capitalist history. Much more so than in New York, the patterns of Paris' luxury housing market reflect the pre-*bourgeois* values of the aristocracy. At the same time, its lower prices derive from the much greater influence of post-*bourgeois* socialism.

Market Cycles, Sales Volume and the Average Price in Paris

Like New York, the Paris housing market boomed in the

late 1980's and deflated in 1991. However, in New York there has been an increasingly powerful market recovery since about 1993; in Paris, the market recovery was delayed by several years.

Data provided by Paris' association of public notaries⁵ indicates a steady increase both in the number of apartment resales and in the French franc (FF) volume of these resales from 1980 to 1989. Beginning in 1990, the volume indicators declined and then dropped significantly in 1991. The average price dropped markedly in 1992. There was some recovery in 1994, but the subsequent trend was irregular. The number of transactions, French franc sale volume, and average price of 896,595 FF (approximately \$149,000⁶) was lower in 1997 than in 1991.

Although statistics are not yet available, it is now generally accepted that a market recovery in Paris began in late 1997. Americans and other foreign nationals are participating by buying apartments and investment property at relatively low prices.

The Paris and New York Markets are Differentiated by both Quality and Size

The Paris luxury market is highly segmented. While most of the bourgeois or "luxury" market sells between 18,000 and 30,000 French francs per square meter, the top tier of the market sells above 40,000 FF per square meter⁷, with the highest prices between 50,000 and 60,000 FF/m² (\$774 to \$929/SF).

Discussions at the *Féau* Group indicate that, for the luxury market as a whole, the supply remains fairly large and buyers are conservative in their offers. On the other hand, some properties — not necessarily the most expensive — are highly sought-after and difficult to find, even in a still-reviving market.

Previously, affluent Parisian households shared the present Manhattan preference for large, three-bedroom apartments of 180 to 200 square meters ($\pm 2,000$ square feet). The stronger demand is presently for smaller apartments.

In Paris, smaller apartments are leading the recovery; in New York, larger apartments have been the leading indicator.

⁵ "Volume et Chiffres D' Affaires des Ventes Immobilières, Appartements anciens vendus libres", Sources: Bases d'Informations Économiques Notariales, Chiffres au 31 décembre, 1997, version du 16/03/98. This data is based on resales of apartments built prior to 1960.

⁶ In this report, we have used a conversion rate of six French francs (FF) per United States dollar.

⁷ One square meter is equivalent to 10.7638 square feet

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These apartments have three bedrooms, but only 130 to 150 square meters ($\pm 1,500$ square feet) and are priced from approximately 3-4 million French francs (\$500,000 to \$670,000), or 20,000 to 30,000FF/m². These apartments are in relatively short supply, and there has been some increase in their prices.

The reasons for this shift in taste are found in the French economy and tax regime, discussed further in a later section of this report. Large apartments are now difficult to sell, particularly if they lack light, need renovation, or face over large, noisy boulevards. Large apartments for which there is demand are typically in the top tier of the market, extremely well located, with unusual architecture or calm, and excellent daylight or views.

The Manhattan market is also highly differentiated, and much more expensive than Paris. Miller Samuel, an appraisal firm, reports an average 1997 cooperative price of \$424,365 for all of Manhattan south of 96th Street.⁸ Brown Harris Stevens reports a \$1,092,849 average in Manhattan's best neighborhoods.⁹ Prices vary widely according to location.

In Paris, smaller apartments are leading the market recovery. In New York, larger apartments have been the leading indicator. Until recently, Manhattan demand was

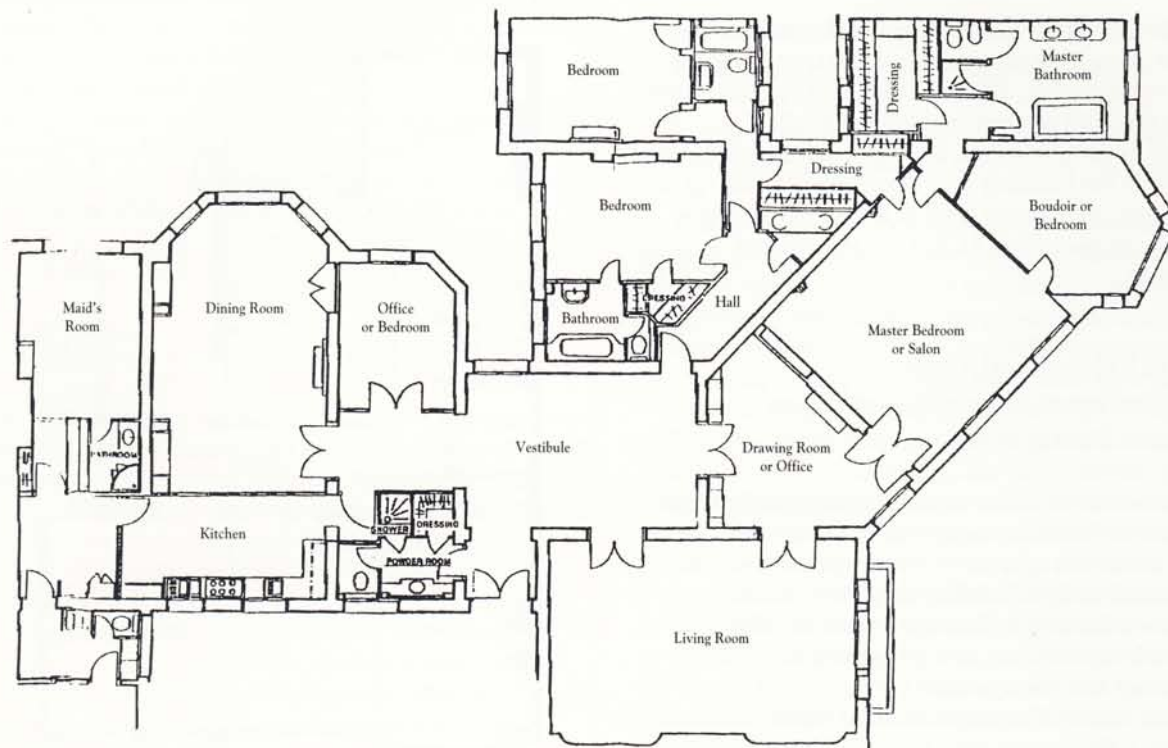
strongest for the largest, grandest apartments and for spacious family apartments. These sell at significantly higher per-square-foot prices than their smaller equivalents.

Contrasts in Pricing and Taste

- Large Apartments on the *Quai Anatole France* and Fifth Avenue

In both Paris and New York, the most desirable and expensive housing consists of exceptional, large apartments and houses at the most desirable addresses.

This grand, 370-square-meter (4,000-square-foot) apartment is located on the *Seine*, on the *Quai Anatole France* (7th *arrondissement*). Completely renovated, it has excellent views of the *Seine*, the *Tuileries* and the *Place de la Concorde*. The large entry foyer, rectangular living room ($\pm 27' \times 18'$), grand formal dining room and maid's room would be familiar to owners of large New York apartments. The open circulation between the living room, drawing room, master bedroom and *boudoir* would not be considered sufficiently private in New York. Like virtually every residential building in Paris, its 1930's building has no doorman.



Quai Anatole France

⁸ Based on sales of \$75,000 or more

⁹ Defined in footnote on page 5

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This Fifth Avenue duplex apartment is located in the East 70's and measures 4,700 square feet (437m²). Its 1926 building is prestigious and offers the doorman security and maintenance staff considered necessary in this market. In addition to its views, note the greater formality of the layout and the total separation of the upstairs bedrooms from the main rooms on the lower floor. This apartment was in very good, but not recently renovated, condition.



More striking than the architectural differences are the differences in price. The apartment on the *Quai Anatole France* sold in November, 1997 at 19,500,000 French francs (52,702 French francs per square meter, FF/m²), approximately \$3,250,000 (\$813/SF). The price included a parking space in the building next door. The apartment on Fifth Avenue also sold in late 1997 at a much higher \$8.5 million dollars, or more than \$1,800 per square foot (117,000 FF/m²).

Contrasts in Pricing and Taste

- A Family Apartment in *Neuilly-sur-Seine*
Six Rooms on Carnegie Hill

This apartment is in a turn-of-the-century non-doorman building in the *St. Pierre* section of fashionable *Neuilly-sur-Seine*, a suburban apartment-house district popular with families, and well serviced by shops and markets. Located between the *Arc de Triomphe* and an office building district, *La Défense*, it is integrated into Paris' excellent subway and bus systems.

This is a six-room¹⁰ apartment of 134.6 square meters, approximately 1,450 square feet. The plan consists of a

large entry hall which extends through the middle of the apartment, a *grand* (large) and *petit* (small) salon, dining room, kitchen with pantry, two bedrooms, bathroom, washroom (*toilette*) and water closet (toilet). The pantry has been incorporated into an enlarged kitchen. There were originally fireplaces in every room; one has been removed.

The *grand* and *petit* salons are decorated with two marble fireplace mantels surmounted by framed wall mirrors; and by elegant, painted wainscot and richly cast plaster ceiling moldings. A large balcony across the front of this apartment allows for floor-to-ceiling French doors, which still have their original embossed brass handles. The entire apartment has open views or outlooks and light.

While not one of the largest or most expensive apartments in Paris, the *Neuilly* apartment is an excellent example of the type most highly sought after at this time. The layout, which originally emphasized formal living space at the expense of bedrooms, is easily converted into a three-bedroom apartment. Monthly charges and real estate taxes total about 32,500 FF per annum, \$450 monthly.

This apartment is not on the market, but its owners indicate that a less desirable second floor apartment sold earlier this year for 3,800,000 FF, or 28,000 FF/m², including a garage in an adjacent building (worth about 200,000 FF) and a top-floor maid's room. This is approximately \$633,000, or \$437 per square foot.



¹⁰ In Paris, this would be counted as five rooms. The kitchen is not counted as a room.

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This classic, six-room apartment also measures about 1,450 square feet (135m²) and is located on Manhattan's Carnegie Hill. The neighborhood is highly sought after due to the quality of its buildings, excellent private schools, relative quiet, and intimate village atmosphere. The apartment is located in a well-regarded side-street building which was built in the late 1920's, and has doormen and a maintenance staff.



The Carnegie Hill apartment is clearly a two-bedroom apartment. It lacks the balconies and ornate detailing of the *Neuilly* apartment, and has only one fireplace in the living room. However, it has two full bathrooms, closets in each bedroom, a maid's bath, and access to separate service and passenger elevators.

Monthly charges for the Carnegie Hill apartments are much higher than for the *Neuilly* apartment (approximately \$1,700). Although not recently renovated, this apartment is also worth more than the *Neuilly* apartment. It sold in July, 1998 at about \$925,000 (5,550,000FF), or \$638/SF (41,000 FF/m²).

Age and Aristocratic Antecedents

Most of the housing in Paris dates from the Renaissance, the 18th, the 19th and early 20th centuries. Newer housing is a small proportion of the total. In Manhattan, much of the housing stock was built in the 19th century, but the bulk of luxury apartments were built in this century.

Much of what distinguishes Paris' older housing stock from that of New York are its aristocratic antecedents. These antecedents affect building types, floorplans, ornamentation and the standard of what is desirable.

Most aristocratic residential property in Paris is located in neighborhoods which date from the *ancien régime*.

Many of these surviving mansions, or *hôtels particuliers*, are in the older 6th and 7th *arrondissements*, particularly in the neighborhoods defined as the *Faubourg St. Germain* or *St. Germain des Prés*. These *hôtels* are located in a mixture of more or less elegant apartment buildings, government ministries, old narrow, intimate streets and, particularly in the 6th *arrondissement*, remnants of working class, intellectual and literary Paris, churches, markets, and expensive antique dealers and retailers.

Pre-capitalist Paris was a walking city where residences of the aristocracy were intermixed with housing and businesses of other social classes. Even the *hôtel particulier* housed the family of the owner, his or her business activities, and numerous servants, employees and retainers. This traditional socio-economic blending survived well into the 19th century and is associated, to a much greater degree than in New York, with the most desirable housing.

These neighborhoods are now the most expensive in Paris. According to the Paris association of notaries, the 6th and 7th *arrondissements* averaged 22,151 FF/m² and 22,382FF/m² in 1997 (\$343 and \$347/SF). This is slightly higher than the averages in Paris best *bourgeois* neighborhoods, the 8th and the 16th, which are at 20,483 and 19,223FF/m².

In New York, History, but not our Oldest History, is Associated with the Highest Prices

In New York, buildings or addresses with the most historic associations do not necessarily capture the highest prices.

Most of Manhattan's single-family townhouses are older than its pre-war apartments. However, they lack the security, services, views and ease in plan which New Yorkers presently prefer. Our subsequent discussion indicates that even the most desirable townhouses sell at lower square foot prices than equivalent apartments.

Affluent New York prefers its older, pre-World War II buildings, and the most successful new condominiums mimic pre-war architecture. However, history in this case is narrowly defined as the period between the two World Wars. In Manhattan, the "best" apartments were built during the 1920's.

Manhattan's oldest residential neighborhoods were demolished. As business moved uptown, the wealthiest residents moved further north, eventually consolidating on the Upper East Side and more recently on Central Park West. The oldest Manhattan neighborhoods, such as the

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Village, Soho or Tribeca, are primarily associated with progressive tastes and values rather than with the conservatism of the establishment.

According to Miller Samuel, 1997 average prices on the Upper East Side were the highest in Manhattan, at \$1,240,069. Greenwich Village averaged \$286,069. In Soho and Tribeca, where there are more large loft apartments, the average was \$603,255.

Hôtels of the Aristocracy, Mansions of New York's Business Class

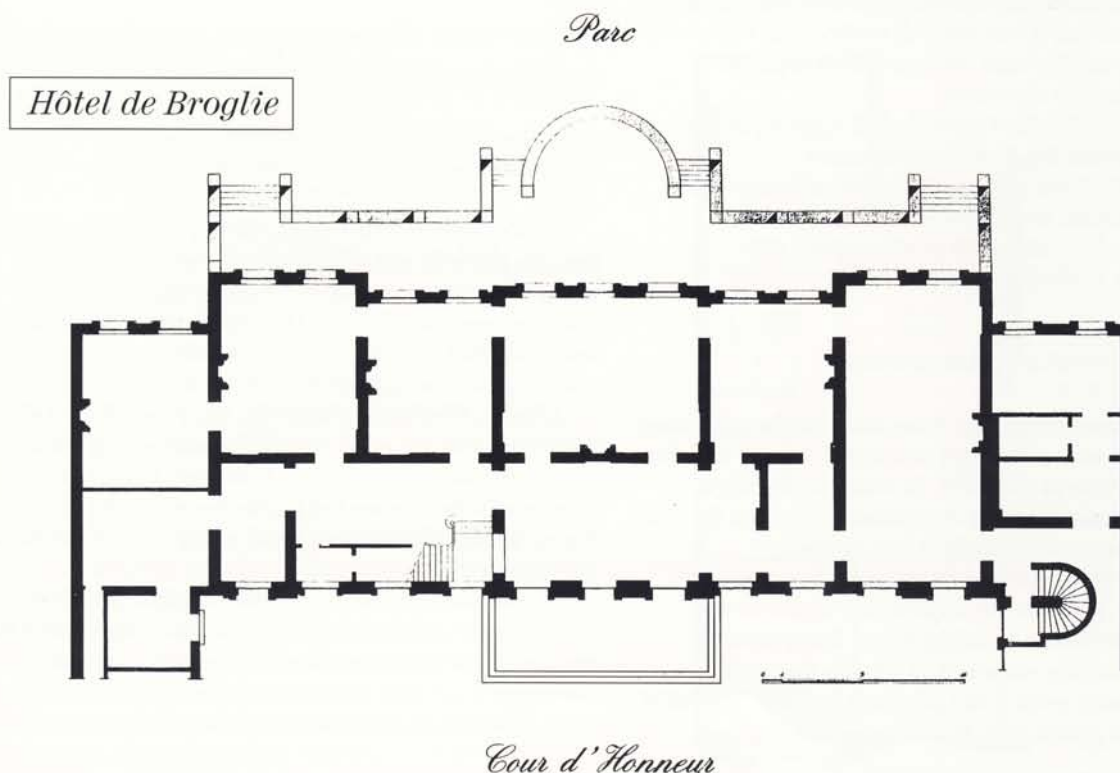
Even to Americans familiar with *hôtel particuliers* converted to museums, such as *Musée Rodin* in the 7th *arrondissement*, or the *Hôtel Nissim de Camondo* on the *Parc Monceau*, ownership of a private 17th or 18th century *hôtel* is exceptional.

The highest-priced residential sale in Paris over the past few years was that of the extraordinary *Hôtel de Broglie*, which sold last year (1997) at a price between 350 and 400 million French francs (\$58 to \$67 million dollars). The *hôtel* is located in the 7th *arrondissement*. Built in 1735 in the classic manner, its main building is screened from

the street by secondary structures, a large entry court and a walled private garden. The buildings total approximately 3,120 m² (33,600 SF), while the garden is an exceptionally large 7,000 m² (about 75,300 SF). The first floor plan, below, illustrates the symmetrical layout and porous circulation of the rooms, which are oriented towards an outdoor terrace overlooking the *parc* or garden, and arranged in *enfilade*.¹¹

The *Hôtel de Broglie* is much more expensive but also much larger than any private house in Manhattan. Its unit price, plus or minus 120,000 FF/m² or \$1,860/SF, is impressive by Manhattan standards, although much of the value is in the garden. Typically, Parisian *hôtels* are large, but not at this level, in size and pricing.

More typically sized at 1,074 m² (11,560 SF) is an *hôtel* which is presently on the market in the 6th *arrondissement*. Built *entre cour et jardin*, between a front court and a rear garden, it has seven *salons*, several with 18th century paneling, on the ground and first floors; and eight bathrooms and nine bedrooms on the upper floors. It is located on an unassuming narrow street near the *Luxembourg* garden, a contrast to the prestige of the neighborhood and the symmetry of the front court and facade.¹² The photograph on the next page shows the elegance of the *hôtel's* prior occupancy.



¹¹ A suite of rooms, placed one after the other, and opening to each other

¹² The symmetry of the front court was imposed by the architect; the left wing is false as are its doors, which are built against the wall of a neighboring structure.

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A *salon* near the Luxembourg Garden

After six years on the market, the asking price is now 58,000,000 (54,000 FF per square meter), less than \$10,000,000 and approximately \$836 per square foot.

The asking price now compares favorably to other *hôtel* sale prices over the past five years. These range from 59,000 FF to 120,000 FF per square meter for 18th and 19th century mansions on both sides of the *Seine*.

New York's mansions were built for its businessmen, or for businessmen who wished to establish a New York presence, and a few of them were large even by aristocratic standards. The largest of these houses are now typically museums or institutions. Most private houses in Manhattan measure from 3,000 to 10,000 square feet (280 to 930 square meters).

Recent square foot prices at the upper end of the Manhattan townhouse market range from \$700 to \$1,000 per square foot, 45,000 to 65,000 FF/m². The highest prices are for remodeled houses off Fifth Avenue. This is not dissimilar from the pricing of *hôtels* in Paris. However, the *hôtel* competes with the best apartments at the top of the Paris market. In New York, on a square foot basis, townhouses are much less expensive than equivalent apartments.

Apartments, their Historic Precedents

While the availability of entire *hôtels* is limited, there has long been significant demand for those which have been subdivided into apartments. The strongest demand is for those measuring 150 to 200 square meters, approximately 1,600 to 2,150 square feet. There is also a shortage of larger apartments of approximately 300 square meters, *entre cour et jardin*, the most aristocratic of architectural references.

Apartments in the city's historic neighborhoods are not exclusively or even primarily in the former mansions of the nobility. At other historic addresses, such as the *Place de Furstemberg*, apartments are rarely available, and when they are for sale, capture high prices. On this square, known primarily for its artistic associations, a small, three-room (70 m²) apartment sold late last year for about 3,500,000 FF (50,000 FF/m²), approximately \$580,000 (\$775/SF). It needed a complete remodeling; its shower was still in the kitchen.

This price is high, but not overwhelming by Manhattan standards. In an historic mansion on a park block in the East 70's, an 830-square-foot apartment with a 10' living room ceiling and a fireplace is presently in contract at \$695,000, or \$837 per square foot.

Bourgeois Apartments, Enhanced by History and by Park or River Views

Even in Paris' historic *arrondissements*, many buildings date from the 19th and the early 20th centuries. The earlier history of these districts enhances the prestige of their addresses. But it is views of the *Seine* or proximity to gardens that enhances their prices. The apartment on the *Quai Anatole France* is one example. Good apartments, facing the gardens of the Luxembourg Palace or the *Champ de Mars*, where the Eiffel Tower is located, are also very desirable. Sale prices of view apartments in these locations exceed 40,000 and even 50,000 FF/m² (\$620 and \$774/SF).

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Bourgeois Neighborhoods

While some luxury housing can be found in the *Marais*, which dates from the Renaissance, or along the very old *rue du Faubourg St. Honoré* in the 8th *arrondissement*, most of the expensive housing, on the right bank of the *Seine*, is in the 19th century neighborhoods of western Paris developed after 1860.¹³

Unlike the 6th and 7th *arrondissements*, which housed a variety of building types and socio-economic groups, the 8th, 16th and 17th *arrondissements*, and later *Neuilly-sur-Seine*, were developed to attract and to house the various levels of the affluent middle class. As the city grew, lower-middle and working-class households migrated to new neighborhoods in eastern Paris.

Bourgeois Paris is similar to Manhattan, where the most expensive neighborhoods are characterized by a large degree of socio-economic and even architectural uniformity.

In Paris' older neighborhoods, residential elitism was identified by the juxtaposition of the grandeur of the *hôtel* with irregular surroundings. However, privilege in the *bourgeois* neighborhoods of the right bank was defined

by association with neighbors who were similarly affluent. From a historical perspective, the 19th century neighborhoods are relatively uniform. Differences between their buildings and their rich ornamentation do not override their external and internal unity. Distinctions are still very important, but they are between the various levels of middle-class taste and wealth.

Bourgeois Paris is therefore similar to Manhattan, where the most expensive neighborhoods are characterized by a large degree of socio-economic and even architectural uniformity. Park Avenue is the quintessential New York example — a row of relatively uniform facades, housing various levels of the well-to-do middle class. Of all Manhattan neighborhoods, the Upper East Side is the most socio-economically consistent, as well as the most expensive.

• *Le Triangle D'Or*

On the right bank of the *Seine*, the most glamorous of the luxury neighborhoods is the *Triangle d'Or*, which is

defined by the *Avenue des Champs d'Elysées*, the *Avenue George V*, and the *Seine*. Foreigners are often attracted to this area which has many of the city's most luxurious hotels and shops, including the hotels *Plaza Athénée* and *Prince de Galles*, as well as *Dior*, *Chanel*, *Jean-Louis Scherrer* and *Ferragamo*.

A 280 m² apartment, at its best address, the fashionable *Avenue Montaigne*, sold this spring for 16,000,000 FF or 57,143 FF/m² (3,000 square feet at \$2,700,000, \$900 per square foot). Its building, a converted mansion, faces the *Place d'Alma* and has views of the *Seine* and the Eiffel Tower.

Although expensive and desirable, the *Triangle d'Or* is no longer a quiet residential neighborhood. Parisian families, like New Yorkers, often prefer quieter residential neighborhoods, in the 8th, 16th or parts of the 17th *arrondissements*.

• The *Avenue D'Iéna*, the *Place D'Iéna*, and the *Place des États-Unis*

Within a short walking distance of the *Étoile*, the *Place d'Iéna*, the *Avenue d'Iéna*, and the *Place des États-Unis* are among the most desirable addresses in the 16th *arrondissement*. This neighborhood is almost exclusively residential and well serviced by neighborhood stores. The *Place des États-Unis* is a beautifully maintained, tree-filled square. The *Avenue d'Iéna* is a broad and angled avenue, lined with stately apartment houses. The *Place d'Iéna* includes a statue of George Washington and the *Guimet* museum of Asian art, closed for renovation until 1999.

• The *Avenue Foch*

Created by the Baron *Haussman* in 1854, this is truly the grandest of Paris' residential avenues. It is wide, with two service roads separated from the main avenue by greenbelts. Its location between the *Étoile* and *Bois de Boulogne* is eminently well to do, although like Fifth Avenue, former mansions have been replaced with post-war apartment buildings. Indeed, most of Paris' very few doorman buildings are located on the *Avenue Foch*.

The *Avenue Foch* continues to be popular among wealthy foreigners, but its reputation among the French has declined. It is considered too foreign, too quiet, and too attractive to the occasional high-level prostitute. Perhaps it is simply a dislike for what most of the French *bourgeoise* can no longer afford; it is on the *Avenue Foch* that this

¹³ An excellent and detailed history of the city's nineteenth century development including *Baron Haussman's* important initiatives, is available in *Paris, Nineteenth Century* by *Francois Loyer*, *Abbeville Press*, 1988

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writer visited the grandest of the apartments discussed in this report.



A dining room on the *Avenue Foch*

At 599.77 square meters (6,455 square feet), the apartment, which dates from about 1930, is truly impressive. Its volumes are large; the living room alone measures 68.79 square meters (740 square feet), the dining room, photographed above, 60.26 m² (649 SF). The ceiling height is 3.6 meters, 11'10". A huge curved entrance gallery extends nearly the full width of the *grand salon*, *petit salon* and the library. There are four bedrooms, including a separate master suite with a maple paneled dressing room. The Poggenpohl kitchen is remodeled to a level which would impress the most demanding New Yorkers. Natural light is excellent, and there are open views of the Avenue with partial views of the Eiffel Tower.

The list price of this apartment was recently reduced to 36,000,000 (60,023 FF/m²), approximately \$6,000,000 (\$930 per square foot). The price includes three separate maid's rooms, storage and parking. Carrying costs are approximately 20,000 FF monthly, about \$3,300.

This apartment's exceptional size and volumes are reminiscent of the grandest New York apartments on Park or Fifth Avenues. However, its price is much lower than for apartments of equivalent quality, size and location in New

York. The smaller Fifth Avenue apartment discussed at the beginning of this report sold at \$1,800 per square foot. On Park Avenue, apartments of this quality have sold at \$1,100 to \$1,800 per square foot in 1997 and 1998.

• The *Parc Monceau*

North of the *Triangle d'Or* and the now largely commercial *Boulevard Haussman*, the 8th and adjoining 17th *arrondissements* are reputed for their conservative character and appeal to the old French *bourgeoisie*. Many of these families have lived in this area for generations, and the most desirable apartments are often passed to children or sold by word of mouth. Not all of the 8th and the 17th are considered to be desirable. In these areas, a mix of sometimes faded *bourgeois* grandeur, offices, and less desirable addresses approach the sensibility of the older 6th and 7th *arrondissements*. The best addresses in this area adjoin the *Parc Monceau*. North of the park, the *Place du Général Catroux* is also a very good address. West of the park, the *Avenue Hoche* joins the conservatism of these addresses to the glamour of the *Etoile*.

Ownership and Exclusivity

Virtually every owner-occupied apartment building in Paris is a condominium. The concept of the cooperatively owned building has never been popular. In France and New York State, essential elements of condominium ownership are similar. In both cities, condominium owners are free to purchase any apartment they can afford, finance it, and turn it into a source of rental income.

In Manhattan, cooperative apartments outnumber condominiums by more than three to one.¹⁴ Most of Manhattan's prestigious and best-located residential buildings are cooperatives. Most newer buildings are condominiums.

Since cooperatives are stock corporations, cooperative boards have considerable discretion over who purchases in their buildings and how much financing is permitted. Board members review lengthy "packages", prepared by potential purchasers, which include detailed financial information as well as social references. Buyers are not infrequently rejected by boards, and while the reasons for the turndown must be legal, they need not be disclosed. *Pied-à-terre* ownership is discouraged. Rentals are subject to board approval and are typically limited to two years.

¹⁴ NYC Department of Finance estimated that there were 54,451 condominium and 182,531 cooperative apartments in Manhattan in 1997.

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The impact of these differences is considerable. Non-resident foreigners, United States nationals from other cities, and New Yorkers who object to the oversight of co-op boards typically buy in the newer condominium buildings. The older cooperatives form an almost exclusively local market. In Paris, the concept of the socially exclusive building does not exist. Foreigners often buy in historic buildings and are an important factor at the upper end of the housing market.

Services, Remodeling and Maintenance

If perfection is defined by that which sells at the highest price, then perfection in Manhattan is the large and highly renovated pre-war apartment. This apartment was built in the 1920's or, if a condominium, was built in the style of the grand apartments of the 1920's. Its moldings, floors and walls are in perfect condition or new. The kitchen has been expensively remodeled with the highest quality cabinetry and appliances. Bathrooms have either been superbly maintained, with original white tiling and fixtures, or completely redone. Bedrooms closets are large, or new closets are built, and there are numerous bathrooms, ideally one for each bedroom. Improvements are carefully integrated into the existing "pre-war style" design. Air conditioning is central or installed through the wall. The buildings have large, elegant, marble-floored entry lobbys, live-in superintendents, and 24-hour doorman security.

Parisians do not demand the same perfection in their interior improvements. Bedrooms which open to living rooms are acceptable.¹⁵ Fewer bathrooms and closets are required. Modern kitchens and bathrooms are in demand, but the installations are typically less luxurious than in New York and more obviously modern in style. Smaller apartments are preferred in the present economic environment. Parisians, however, use automobiles in the city, and garages are a valued amenity.

Paris apartment buildings are smaller than in Manhattan, typically five to seven stories with fewer apartments per floor. Only a handful of buildings have doormen. Security is the watchful eye of the *conciierge*, whose glass-doored apartment faces the entry hall, as in the photograph above. In recent years, most buildings have installed a security code. Dinner guests and visitors telephone for the code.

New York apartment owners pay dearly for the higher levels of service which they require. For the family apartment in *Neuilly-sur-Seine*, monthly charges and real



An early 20th century building entrance,
Neuilly-sur-Seine

estate taxes (*tax d'habitation* and *tax foncier*) total about \$450 (2,700 FF). For the equivalent Carnegie Hill apartment, monthly maintenance, which includes real estate taxes and corporate debt, is much higher, approximately \$1,700 (10,200 FF). For a seven-room apartment on the *Place d'Iéna*, monthly charges and taxes total less than \$1,000 (6,000 FF). Seven-room apartments in Manhattan commonly have monthly maintenance charges of \$1,500 to \$3,500, or 9,000 to 21,000 French francs.

Tax Regimes

French voters are attached to a variety of income guarantees and tax-funded social services which reflect both the greater role of the state in the nation's economy and the influence of socialist policy during this century.

¹⁵ During the Renaissance, bedrooms were important reception rooms, although Parisians no longer receive guests from their beds.

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French income taxes are high for those with higher earnings. The top marginal tax rate, 54%, starts at only 582,000 FF (\$97,000) for a couple with two children. This does not include medical contributions, an additional 2.9%, or other social service charges which are 20% of wages. In the United States, the top marginal rate is much lower, only 39.6%, and starts at a much higher income level, \$278,450. Affluent New Yorkers are taxed at approximately 52% on their top-bracket income,¹⁶ significantly lower than in Paris.

The French tax system is considered to be very disadvantageous to the accumulation of wealth.

Employer costs are also very high in France; social security charges represent 40-50% of employee wages. In New York City, social security, medicare, and other employer expenses average only about 8% of wages.

The French are also subject to an annual wealth tax (for fortunes exceeding 4,700,000 FF, or \$780,000, in 1998) which is progressive and which ranges from .5 to 1.5%, depending on net taxable wealth. This tax does not exist in the United States.

These examples simplify a tax system which is considered to be very disadvantageous to the accumulation of wealth. Several observers indicated that a significant number of the wealthiest French families are establishing their legal residency in England, Belgium, or Switzerland, which have less onerous tax regimes.

For those who remain, real estate investment is at a disadvantage. Although interest rates are relatively low (5-6%), interest payments are not tax deductible and transfer taxes and other expenses at sale are very high. The French government has recently lowered transfer taxes to approximately 7.5%. In New York, transfer taxes on the most expensive cooperatives are approximately 3%.

Economies and Income Distribution

A later real estate recovery in Paris than in New York parallels overall economic trends in France and the United States. Statistics published by the Organization for Economic Co-operation and Development (OECD), an international organization based in Paris, indicate that U.S. growth lagged behind France for 1985 to 1990. However,

France was harder hit by the 1990 to 1993 recession than was the United States. France's recovery since 1993 has also been weaker and more irregular.

The cumulative effects of faster economic growth in the United States are significant. Total growth from 1990 to 1997 was roughly double that of France, 18.01% vs. 9.20%. Even accounting for France's superior growth from 1985 to 1990, total growth in the United States exceeded that in France by a substantial margin (35.26% vs. 26.76% for 1985-1997).

Another recent OECD article examines the distribution of disposable income in member countries over the past two decades and concludes that, while inequality has increased in most countries including the United States, it has probably fallen in France. In the United States, inequality increased by somewhere between 7 and 15% in each decade.¹⁷ "Virtually all of the increase in the share of the top quintile has gone to the top 5 per cent."¹⁸

Specifically, the New York State Department of Labor indicates significant wage increases in New York City's highest earning categories. These are security and commodity brokers, whose average annual wage increased 35% from \$130,456 in 1993 to \$175,875 in 1997; and employees of holding and other investment companies, whose average annual wage increased 36% during the same period, from \$109,424 to \$149,102. Many buyers of Manhattan's most desirable apartments and houses work on Wall Street.

The *Institut National de la Statistique et des Études Économiques* (INSEE) indicates that for the *Ile-de-France* (Paris and its three adjoining *départements*) the highest-earning *socioprofessional category* is heads of enterprises with ten or more employees. The average wage in this category was 453,400 French francs in 1993, approximately \$76,000. The highest paying *economic activity*, also for 1993, was research and develop, with an average wage at 243,700 French francs, only \$41,000.

¹⁷ "Income Distribution and Poverty in Selected OECD Countries", Economics Department working paper 189, OECD, 3/98, pp. 11, 12, 36

¹⁸ Ibid, Annex 3, p.13

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Conclusion

A Pre- and Post-Capitalist Society

Many of the differences that this article has explored can be traced to differences between France's pre- and post-capitalist society, and America's continuous history of middle-class capitalism.

Prices are higher in the Manhattan luxury housing market because of a lengthy economic expansion and greater affluence, and because wealthy Americans receive a larger share of the economic pie. In Paris, lower prices and the shift toward smaller apartments reflect a later economic recovery, lower earnings, and a higher tax burden among the elite.

In Paris, the memory of a pre-*bourgeois*, anti-commercial, aristocratic standard is a strong counterpoint to middle-class taste in determining the housing preferences of the elite. In France, even the *bourgeoisie* affects a disdain for money. This duality in taste is reflected in a greater fragmentation of property-type preferences than in New York. The well to do, both French and foreign, compete for large and small apartments, for *hôtels*, and for a variety of neighborhoods. The best

examples of each type sell at fairly equivalent unit prices.

This is not the case in Manhattan, where there is a stronger consensus of taste, and prices at the best *bourgeois* addresses are unrivaled. Pre-war apartments, or their new-building emulators on Fifth and Park Avenues or Central Park West, are clearly the most expensive. Privilege is defined by association with neighbors who are similarly housed and similarly affluent. Even at these addresses, distinctions are important, but these are between the various levels of *bourgeois* wealth. Cooperative boards preserve and enhance these distinctions by guaranteeing, at minimum, a level of economic uniformity in each building.

Each market therefore offers different opportunities. Luxury housing is more expensive in Manhattan, and analysis suggests that wherever we are in the economic cycle, longer term trends favor the housing of the very wealthy. In Paris, a reviving market appears to offer the prospect of near-term price appreciation. Longer-term prospects will depend on foreign buyers or a revision in economic initiatives. Until then, Paris offers the possibility of elegant living at much lower cost.

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