The Impact of the World Trade Center Attack on Our Housing Market

October 12, 2001

The impact of the World Trade Center attack on our housing market has been severe, but inconsistent. Overall, prices appear to be holding, but sales volume has declined significantly. Some buyers have backed out of negotiated deals, and listing inventory has increased, although slightly. Previously, down markets have been economically driven. The present market is also affected by security and international political concerns. Assuming no further major attacks, it is likely that the market will calm in the coming months. It is also likely that inventory will grow and prices will begin and continue to decline until there is a significant improvement in our sense of security and in the economy.

Interviews with brokers indicate that buyers are hesitant and some have backed out of or re-negotiated previously negotiated transactions. I have heard of two cases in which buyers took advantage of exit clauses in their contracts, because cooperative boards had not interviewed or approved their applications on time. Brokers have also advised us that a few buyers have walked or considered walking away from purchases, leaving behind significant 10% deposits.

New deals are still being made, although many fewer are being negotiated than earlier this year. There have even been a few bidding wars since September 11. Conservatively priced property is still saleable.

Dropped, Re-negotiated, and Unchanged Deals

Buyers are walking away or attempting to re-negotiate some transactions. This is not always the case.

- In the center of Greenwich Village, a $598,000 sale was negotiated for a remodeled, one-bedroom apartment, prior to the attack. In a recent conversation, the broker indicated that the buyer is now asking for a 10% discount.

- Prior to the attack, a $2,500,000 offer was accepted for a two-bedroom apartment in a pre-war building on Park Avenue. After the attack, the buyer decided that a second home was not necessary and backed out of the deal.

- A sale was negotiated for a West End Avenue penthouse that was priced at $1,695,000. The buyer backed out after September 11.

- A $550,000 offer was accepted for a 4.5 room post-war apartment, in late September. This was higher than any offer received prior to September 11. The apartment was listed in January.

- A $350,000 offer was accepted for an East 50's, post-war, one-bedroom apartment, prior to the attack. A contract is pending, and the price is unchanged.

- On West End Avenue, a price was negotiated for sale of a large one-bedroom apartment, at $335,000. The price was negotiated prior to September 11, and the contract has since been signed. Another similar apartment, also on the ground floor, but located in a nearby building, sold in May, at the same price.

Prices vary

Recent conversations with brokers indicate that buyers have begun to look at property again. Many are hesitant because they are uncertain about values. Nevertheless, a number of transactions have been negotiated since September 11 and nearly all pre-existing contracts have closed. At this time it is very difficult to evaluate the direction of prices, since accepted offers have not been signed, and negotiated prices are difficult to obtain. Analysis of a limited number of transactions indicates that some prices are lower, while others are not dissimilar to those negotiated earlier in the year.

- A buyer has walked away from his deposit for a west side townhouse that was "in contract" in the mid $3,000,000's. The seller, who will retain the deposit, has negotiated a new "all cash" deal at less than $3,000,000.

- A full price contract was signed on a 2,700 square foot Tribeca loft during the last week in September.

- At a closing, buyers attempted to negotiate a $30,000 price reduction against a contract price in the low $700,000. They closed with a credit of a few thousand dollars.

- Prior the attack, a price of approximately $1,600,000 was been negotiated for sale of a 1,900 square foot condominium in the East 70's. The contract was signed, subsequent to September 11, with no change in price. An apartment in the same line, on a higher floor, closed in January for $1,450,000.

- On Central Park West, a price of $725,000 was negotiated for sale of a four-room pre-war apartment. After the attack, the buyer attempted to re-negotiate the price to less than $700,000, did not succeed and withdrew. A second offer, at $720,000, was accepted in the last few days of September. As of October 12, this contract has not been signed, and the seller is negotiating another offer.

- On West End Avenue, a price was negotiated for sale of a large one-bedroom apartment, at $335,000. Another similar apartment, also on the ground floor, but located in a nearby building, sold in May, at the same price.

- An offer was accepted prior to September 11, for an 1,800 square foot condominium near Gracie Mansion and was re-negotiated to a little more than $1,000,000 after the attack. A similar apartment, in the same building, sold for $950,000 in June.

The perspective of the brokerage community reflects that of the general public. Most brokers are dealing with re-negotiations, lost deals, hesitant and frightened buyers. Some feel that the market will settle down and "normalize" after the first of the year. Others are negotiating normal transactions. There are still buyers and sellers who want to move.

Brokers who have expressed the most positive outlook in this market are those who are encouraging their sellers to be realistic and lower their prices as needed. These brokers are trying to bring the best possible deals to buyers. Many buyers in this market are nervous, while others are looking for purchases at discounted prices. These deals are difficult to find, but external indicators suggest that our housing market is entering a period of declining values and that well-priced property will be increasingly available.

Increasing inventory will lead to lower prices

The housing market is not the stock market. The housing market is very imperfect—trends are less consistent and vary from transaction to transaction. Housing has less liquidity and is less of a commodity. Consequently the market impact of external events is often delayed. In a down market, buyers react immediately, expecting lower prices. However, there is significant seller resistance to lower prices. In the last market cycle, following the severe stock market drop in October 1987, prices remained relatively stable through 1988 and 1989. Prices did not decline markedly until 1990 and 1991.

In the present somewhat different environment, there have been a large number of dropped and re-negotiated deals. There has also been an increase in available inventory, although the increase is slight and Manhattan is not as overbuilt, with new inventory, as it was in the late 1980's. While negotiated prices have been inconsistent—some lower, some not too different—the dynamic is one that will lead to pressure to lower prices, until the economic and political environment changes.

Listing inventory, in several categories, is at its highest levels since we began tracking availability in April 1999. On the Upper East Side, west of Third Avenue, our system showed over 400 active listings as of October 1. This is only slightly greater than the number of listings available in May, June and July, but it is nevertheless the highest figure we have recorded.

On the Upper East Side, our research indicates increased inventory of 4-5 room, pre-war, six-room, and 7-8 room pre-war apartments. Inventory increases have been greater in the downtown loft market, particularly for condominiums. There were over 100 cooperative lofts and over 165 condominium lofts available as of October 1. The two categories totaled approximately 173 listings at the beginning of September.

Availability has not increased for every type of apartment. Post-war inventory does not appear to have increased significantly on the Upper East Side. The number of 2-3.5 room post-war listings was slightly higher than at the beginning of the two prior months, but still lower than at the end of 2000. There were fewer 4-5, 6, and 7-8, and 9- room post-war listings than earlier this year. There was a slight increase in the number of 9+ room pre-war apartments available, relative to the two prior months, but fewer than April, May, June and July.

None of the Upper West Side apartment-type categories we monitor had any significant changes in inventory.

Downtown, in the Village, Chelsea and Gramercy Park neighborhoods, the number of available listings, in the categories studied, is actually lower than it was earlier this year.

Although the number of available listings may not have increased significantly in many categories, this should not be viewed as a longer-term trend. In the shock that followed

September 11, prudent owners may not have listed property that they had previously intended to sell. Demand, in the form of willing and able buyers, is much lower than it was a month ago. A more marked increase in available inventory should be expected.

Wall Street layoffs are a leading indicator

Indeed a number of recent newspaper articles report announced or planned layoffs at major Wall Street firms, including Credit Suisse-First Boston, Morgan Stanley and Goldman Sachs. The layoffs apparently include highly paid and relatively senior investment bankers. Previous research suggests that employment on Wall Street is a leading indicator of the direction of cooperative prices. Wall Street layoffs also began in 1989 and intensified in 1989, 1990 and 1991. Cooperative prices followed.

Larry Sicular

Brown Harris Stevens Appraisal & Consulting, LLC

October 12, 2001