FOR WHAT'S NEXT IN MANHATTAN'S HOUSING MARKET
WATCH WALL STREET
by Larry Sicular
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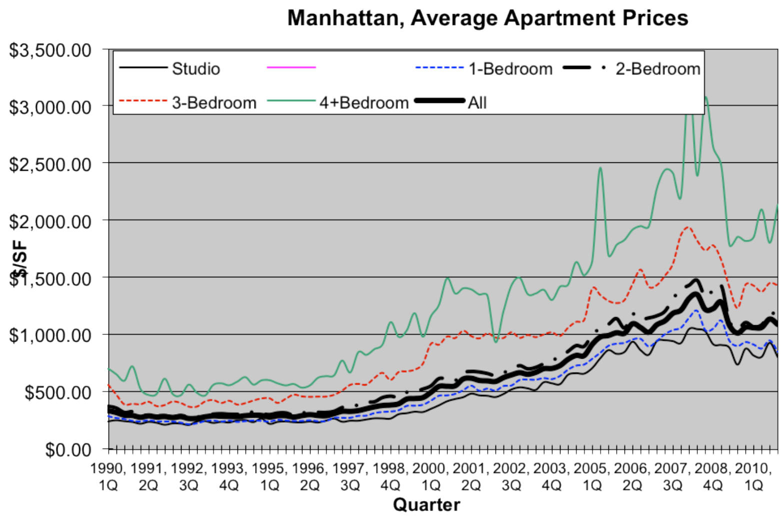
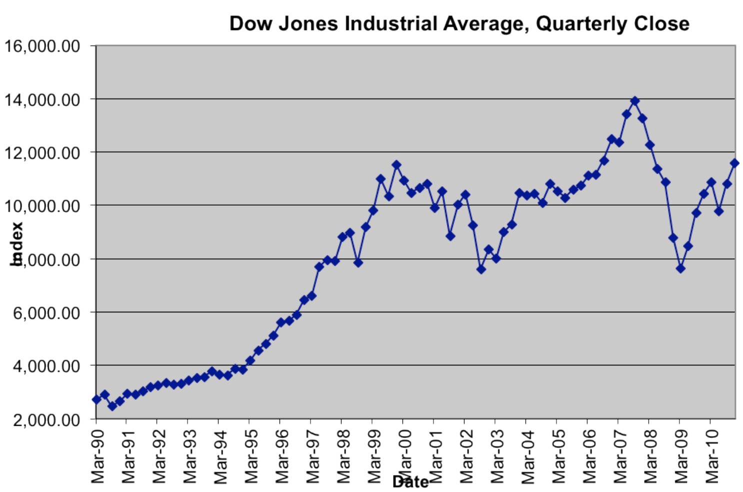
Stock Prices, Wall Street Earnings and Manhattan Housing Prices

The following graphs permit a visual review of the close relationship between the stock market, New York City wages[1], and Manhattan housing prices.[2] It is clear that the direction of our housing prices relies on Wall Street.





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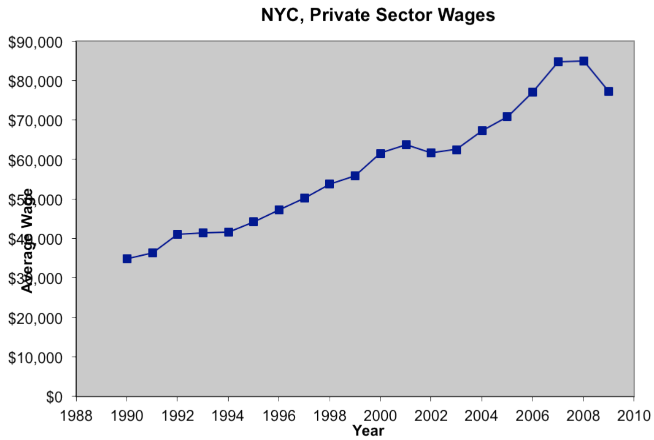
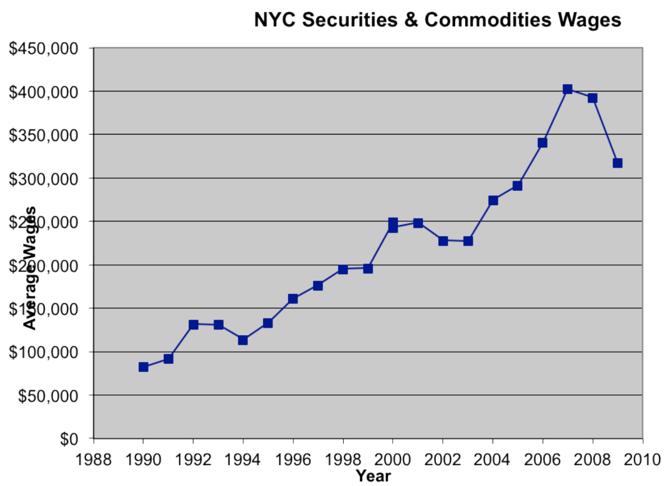
1 Per the New York State Department of Labor

2 Miller Samuel Inc., data or East Side, West Side and Downtown, south of East 96th and West 116th Streets, as indicated on millersamuel.com





Trends in Wall Street Employment and Compensation
According to data provided by the New York State Department of Labor, employees in the category securities and commodities contracts declined from 183,504 in 2008 to 160,965 in 2009. Average wages in the same years dropped from $391,796 to $316,555, or 19%, paralleling a significant drop in housing prices.

According to the State Comptroller, Wall Street employment has only begun to recover from the financial crisis. It's job losses were at 30,900 in August 2010, although 3,000 jobs were added in September and October. [3]

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[3] "Review of the Financial Plan of the City of New York", Office of the State Comptroller, December 2010

Nevertheless, Wall Street profitability rebounded sharply in 2009, to a record $61.4 billion, three times greater than the prior record and following substantial government intervention and support. Industry profits totaled $21.4 billion for the first three quarters of 2010, which should still be the second highest year on record.[4] According to *Bloomberg News*[5] these profits benefited from the Treasury Department's Troubled Asset Relief Program, borrowings from the Federal Reserve's emergency lending facilities in late 2008 and early 2009, low interest rates, and Fed purchases of fixed-income securities.

As the industry became profitable again, cash bonuses grew by 17% to $20.3 billion in 2009, and the housing market began to recover, although we shall see that, for the larger apartments, the positive impact was greater on sale volume than on price. It appears that the cash bonus pool this year will be smaller than last year, although the average bonus may be higher as there are fewer workers. [6]

The finance industry was viewed as largely responsible for the financial crisis in late 2008, and many of the largest banks were propped up with infusions of taxpayer capital. Generous payouts to bankers were heavily criticized.

Following very large bonus payouts in 2008, a rule limiting pay at the bailed-out banks was added into the economic stimulus bill, although its impact was narrowed substantially when several of the large banks returned their bailout funds in full. Institutional investors became alarmed by what they saw as excessive rewards for bank employees, including increases in salaries and bonuses, while dividends, cut during the financial crisis, had yet to be restored. Several companies instituted claw-backs, confiscating some pay if a worker's initiatives lose money later on. Others increased the proportion of their bonus pay in stock. [7]

Bonuses were cut this year. In December, an executive search firm anticipated that pay for investment banking and trading employees at Wall Street firms would drop 22 to 28 percent from 2009. Goldman Sachs' compensation was 21 percent less in the first nine months of last year than it was in the same months of 2009. Pay pools at JP Morgan and Morgan Stanley's investment banks were down 10 percent and 8 percent.[8]

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[4] "Review of the Financial Plan of the City of New York", Office of the State Comptroller, December 2010
[5] "Wall Street Sees Record Revenue in '09-10 Recovery from Bailout", Michael Moore, Bloomberg News, December 12, 2010, www.bloombergnews.com
[6] "Review of the Financial Plan of the City of New York", Office of the State Comptroller, December 2010
[7] "Wall Street Pay", *The New York Times,* Times Topics, 2009
[8] "Wall Street Sees Record Revenue in '09-10 Recovery from Bailout", Michael J. Moore, www.bloombergnews.com, December 12, 2010.

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Many Wall Street employees did not get bonuses. In an effort to placate regulators, who argued that performance based pay increases risk-taking, Wall Street firms raised base pay substantially in 2009 and 2010, but cut or eliminated bonuses. The focus of these cuts was on back-office employees or mid-level bankers earning $250,000 to $500,000, since the five largest firms nevertheless put aside nearly $90 billion for bonuses. Bonuses in the millions were still expected for senior executives. Some departments were expected to fare better than others, such as leveraged finance at JP Morgan and Merrill Lynch and equity trading at Morgan Stanley. [9]

Recent Trends in the Manhattan Housing Market

According to data and market reports published on-line by Miller Samuel Inc.[10], the volume of Manhattan cooperative and condominium sales (south of East 96th and West 116th Streets) peaked at 3,744 closings in the second quarter of 2007. (The Dow peaked at 13,895 in September 2007.) Volume dropped to a mere 1,138 and 1,447 in the first and second quarters of 2009, following the near collapse of the finance markets in the last quarter of 2008. With regards to price, the average price per square foot peaked at $1,352 in the second quarter of 2008, but dropped to only $1,015 in the second quarter of 2009.

There was significant recovery to 2,104 sales beginning in the third quarter of 2009, paralleling a recovery in stock prices and improved profitability on Wall Street. It peaked to 2,616 sales in the second quarter of 2010, but declined to 2,128 sales in the fourth quarter. Regarding the average price, there has been a modest recovery that peaked at $1,138 per square foot in the third quarter of 2010, and dropped back to $1,090 in the fourth quarter.

Trends at the Upper End of our Housing Market

For the larger apartments, there was a significant increase in sale volume, beginning in the second quarter of 2009.

For the largest apartments, with four or more bedrooms, the increase was from a trough of 36 sales in the first quarter of 2009, to 71 sales in the second quarter, then 105, then 56, then 101 (1st quarter 2010), then 76, 103 and finally 84. While variable, the higher figures exceed this category's sale volume in any quarter of 2007 or 2008.

For three bedroom apartments, volume jumped from 79 sales in the first quarter of 2009, to over 300 sales in the third quarter, to 487 sales in the second quarter of 2010 but then dropped to 266

[9] "The Bonus Season on Wall Street, Many See Zeros", Nelson Schwartz and Susanne Craig, *The New York Times,* December 19, 2010

[10] "Manhattan Market Overview, a Quarterly Survey of Manhattan Co-op and Condo Sales, 3Q 10", Prudential Douglas Elliman Real Estate by Miller Samuel Inc. Real Estate Appraisers and Aggregate Data Search Engine, also by Miller Samuel Inc., updated through the fourth quarter of 2010. The data is from Miller Samuel; the responsibility for its interpretation is mine.

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sales in the fourth quarter. Sale volume, for three-bedroom apartments, never exceeded 200 transactions in any quarter of 2007 or 2008.

Recent increases in sale volume, for the larger apartments, appear to be directly related to declining prices. The impressive increases in volume followed the lowest average prices since 2005--$1,786/SF in the second quarter of 2009 for four-bedroom apartments and $1,230 in the third quarter of 2009 for three bedroom units. Average prices in these categories have increased since these troughs, and in the 4th quarter were at levels similar to those in first quarter of 2007. However, sale volume declined somewhat in the fourth quarter, from 103 to 84 sales of 4+ bedroom apartments and from 339 to 266 closings for three-bedroom units.

Pricing on Individual Apartments

The following examples indicate the variable impact of overall price trends on individual transactions and offerings. (Note these apartments typically close about three months after the contracts are signed.)

At 1 Central Park West, the Trump International Hotel and Tower condominium, apartment 27C, with 1,591 square feet, two bedrooms, 2.5 baths and Park views from every room, sold in July 2008 for $5,100,000, at the peak of the market. The listing indicates that there were custom built-ins. Apartment 30C sold in February 2010 for $4,775,000—the contract was signed in January. Not only was the price a bit lower, but also this apartment had been stripped down to the studs and completely renovated with zebra wood, teak, marble, venetian plaster and silk finishes.

At 720 Park Avenue, a Rosario Candela designed building at the northwest corner of 70th Street, apartment 4A sold in May 2010 for $21,995,000 ($4,073/SF). This is a grand, 15-room apartment with about 6,400 square feet, five bedrooms and a paneled library. The living room, library and master bedroom face Park Avenue. It needed renovation. In December 2008, apartment 7A sold for $36,630,000. This apartment was also in fair condition.

At 950 Fifth Avenue (76th Street), the duplex on the 8th and 9th floor sold in August 2010 for $25,000,000 ($5,555/SF). 950 Fifth is one of the few 5th Avenue cooperatives built with duplex apartments at a townhouse width, in this case 27'. This apartment had three bedrooms and a library in about 4,500 square feet, and it was highly renovated. The duplex on the 3rd and 4th floors sold in January 2008 for $25,492,500. This apartment was in excellent, renovated condition.

At 770 Park Avenue (63rd Street), another Candela building, duplex 4/5B was listed in January 2010 at $21,000,000 and has been available since August at $17,900,000. This is an eleven-room apartment of about 4,300 square feet, apparently "spectacularly renovated" and in

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"mint"condition. Photos indicate a curved staircase, new kitchen and opulent decoration. Apartment 6/7B sold in April 2007 for $17,500,000, in "good" condition.

At 181 East 65th Street, The Chatham, a condominium high-rise built about 10-years ago, apartment 18A was listed in late December for $7,000,000. This is a six-room, three-bedroom apartment of 2,410 square feet. Apartment 20A sold in March 2007 for $6,750,000.

At 130 East 67th Street, at Lexington Avenue, a pre-war Italian Renaissance cooperative designed by Charles A. Platt, duplex 6/7B, with eight rooms and four bedrooms, was listed in late December 2010 for $5,995,000. It was purchased in July 2010 for $5,750,000. In July 2009, apartment 10/11C, also a four-bedroom duplex, was purchased from an estate for $3,500,000.

At 173 Riverside Drive, known for its large apartments and Gothic window detail, cooperative apartment 12D was listed in September 2009 for $5,975,000. The price was eventually reduced to $5,400,000 in October 2010, and a contract was signed in December. This is a nine-room apartment with three bedrooms and a library and five rooms on the river. In July 2006, apartment 10D sold for $5,400,000. Listings indicate that both apartments were in very good condition. Apartment 14D which had been traditionally renovated, with central air in some rooms, sold in May 2008 for $6,300,000.

At 45 Gramercy Park North, apartment 14B, a seven-room apartment with Park views was listed in December 2010 for $3,975,000. It has had a "triple-mint" modernist renovation, and it was purchased in April 2010 for $3,975,000. Apartment 11A sold in January 2009 for $3,650,000. It had a gourmet kitchen and was in "excellent" condition.

In nearly all of these examples, and many others that I have seen, prices remain lower than at the peak of the market, not too dissimilar to what they were in 2009 or prior to the run-up, in 2006.

How do Prospects on Wall Street Affect Housing Prices?

Clearly, much depends on Wall Street. The basic trend lines are clear, although timing, degree and the impact on volume or price may vary. And since the income comes from Wall Street, it is the independent variable, the causative factor.

The upper ends of the cooperative and condominium markets appear to be particularly reactive to Wall Street trends. Look at their sensitivity on the graphs indicated. In the present cycle, large-apartment buyers have also been opportunistic, able to step into the housing market in relatively large numbers, when prices drop low. I suspect that these trends, for larger apartments, are fairly

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representative of trends for all expensive apartments. It is just that the relatively few, smaller, expensive apartments are lost in the averages.

As indicated in the press, Wall Street has recovered substantially since late 2008, although much of its success, particularly in 2009, may have been due to government intervention and support. This has had a positive impact on our apartment market, particularly on sale volume at the upper end of the market. However, average compensation is lower than it was a few years ago, and bonuses may be lesser, more narrowly distributed and/or less weighted to cash. All of this has already been indicated by some decline in sale volume in the fourth quarter. It suggests an active market in 2011, but with limited increases in sale volume and price.

Who is Larry Sicular?
Associate Broker at Brown Harris Stevens, Edward Lee Cave Division
Member of the Appraisal Institute, MAI, RM
Editor of The Stamford Review, www.stamfordreview.com
Adjunct Professor, New York University, Schack Institute of Real Estate
Arbitrator, American Arbitration Association
Princeton, BA 1975; Columbia, MBA 1978