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WHERE IS THE GROWTH AT THE UPPER END OF THE MANHATTAN HOUSING MARKET?

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Overall, the most impressive change in the Manhattan housing market since the financial crisis appears to have been the continued physical expansion and price growth at the upper end of the housing market. We read and hear constantly about record prices, for apartments selling in the tens of millions of dollars, in existing or new, superbly located buildings. At the same time, broader development of ultra-luxury housing downtown, and even in Brooklyn, continues a trend that began well before 2000 and has now irreversibly changed the living patterns of the very wealthy.

To get a clearer hand on price trends for the largest and most expensive apartments, I have started in a very obvious place, with the market statistics prepared by Jonathan Miller at Miller Samuel. His database is large and his website allows anyone to explore cooperative and condominium pricing, since 1989, and in many locations. I have created the following tables from his data:

Average Price Per Square Foot in the Prime* Manhattan Cooperative and Condominium Markets

	<i>Studio</i>	<i>1 bedroom</i>	<i>2 bedroom</i>	<i>3 bedroom</i>	<i>4+ bedroom</i>	<i>All market</i>
2 nd Quarter, 2012	\$817	\$981	\$1178	\$1455	\$2151	\$1118
2011, annual av.	858	947	1182	1535	1965	1122
1989, annual av.	264	286	359	510	701	332

*east side, west side and downtown

Percentage Change in Average Prices in the Prime* Manhattan Cooperative and Condominium Markets

	<i>Studio</i>	<i>1 bedroom</i>	<i>2 bedroom</i>	<i>3 bedroom</i>	<i>4+ bedroom</i>	<i>All market</i>
% change 1989-2011	225	231	229	200	180	238
% ch. 1989-2qtr, 2012	209	243	228	185	207	237
% ch. 1989-2008	286	289	292	255	304	287
% ch. 2008-2qtr, 2012	-20	-12	-16	-20	-24	-13

Price appreciation for the largest, 3 and 4+ bedroom apartments has lagged both the market average and the price appreciation of smaller units. Only at the market peak, in 2008, had the largest apartments outperformed the smaller ones, and the decline in average pricing, since 2008 has hurt larger apartments more than small ones.

While many readers will focus on the price increases since 1989, the relative square foot prices are arguably just as interesting. For many years, in Manhattan, larger apartments have sold for not only higher prices, but also higher prices per square foot than smaller apartments. The differences are enormous, and relatively stable, but they have declined since 1989.

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- In the second quarter of 2012, the largest 4+ bedroom units sold for 1.48 times the square foot price of 3 bedroom units, 1.83 times that of 2 bedroom units, 2.19 times the square foot price of one bedroom units, and 2.29 the price of studios.

- In 1989, 4+ bedroom units sold for 1.37 times the square foot price of 3 bedroom units, 1.95 the price of two bedroom units, 2.45 the price of one bedrooms, and 2.65 times that of studios.

So where is the big explosion at the upper end of the market? It is in the growth in the volume of sales as indicated below. Here we see that while the absolute number of sales of large apartments is still a small share of the market, the growth in sales volume since 1989 has been most pronounced at the top. The sales volume performance of the largest apartments has been even more impressive since 2008. There have been very large increases in the number of 3 and 4+ bedroom sales, as the remainder of the market has been flat or declined.

Increase in the Number of Sales in the Prime Manhattan Cooperative and Condominium Markets

	<i>Studio</i>	<i>1 bedroom</i>	<i>2 bedroom</i>	<i>3 bedroom</i>	<i>4+ bedroom</i>	<i>All market</i>
# of sales 1989	679	1551	1636	231	138	4235
# of sales 2011	1323	3343	3372	1059	349	9446
% change 1989-2011	95%	116%	106%	358%	153%	123%
# of sales 2008	1729	3316	3905	472	192	9614
% change 2008 - 2011	-23%	1%	-14%	124%	82%	-2%

So to what degree do these increases reflect better data collection at Miller Samuel versus increased inventory or velocity in the market? Jonathan Miller answered this question as follows:

“To a certain degree, I am clearly better at acquiring data now than in 1989, but I think it is largely the introduction of new property to the housing stock over the period. In the mid-80’s the ratio of co-ops/condos was 85/15, and now its 75/25. New condo development has made current sales levels 50/50. So it’s logical that condos grew much faster. Co-ops grew to a lesser degree but grew because intense co-op conversion activity in the 1980’s formed many non-evict plans and sponsor units have slowly entered the market.”

If it is the growth in numbers rather than the growth in price that is most impressive, for the largest apartments, is the news about exploding prices at the top of the market misleading? It may be, for the 3 and 4+ bedroom categories as a whole, but it may not be at the very top level. To test this hypothesis, I looked at the highest priced apartments closed in 2012 and compared these to the five highest in 2008, the presumed peak of the market, and in 1989. (The highest are selected from those indicated in the brokers’ RealPlus listing system.)

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Highest Prices in 2012 vs. 1989

<i>Address</i>	<i>Type</i>	<i>Apartment</i>	<i>Price</i>	<i>Date</i>	<i>Estimated SF</i>	<i>Price/SF</i>
15 Central Park W.	Condo	PH20	\$88,000,000	2/2012	6,744	\$13,048
50 Central Park S.	Condo	30/31	\$70,000,000	6/2012	10,882	\$6,433
740 Park Avenue	Co-op	12/13CD	\$52,500,000	5/2012	11,300	\$4,646
834 Fifth Avenue	Co-op	12B	\$42,000,000	1/2012	5,600	\$7,500
2 East 70 th Street	Co-op	PH13A	\$40,064,000	6/2012	-----	-----
2 East 67 th Street	Co-op	11 th floor	\$48,000,000	7/2008	6,000	\$8,000
1060 Fifth Avenue	Co-op	13B/14PHB	\$46,000,000	7/2008	7,500	\$6,133
15 Central Park W.	Condo	PH39	\$45,000,000	2/2008	10,674	\$4,216
1 Central Park South	Condo	1109	\$45,100,956	4/2008	11,861	\$3,802
720 Park Avenue	Co-op	7A	\$36,630,000	12/2008	5,800	\$6,316
4 East 66 th Street	Co-op	9 th floor	\$9,000,000	4/1989	6,800	\$1,324
435 East 52 nd Street	Co-op	18/19C	\$8,289,687	7/1989	7,400	\$1,120
500 Park Avenue	Condo	PH39/40	\$7,600,000	4/1989	8,000	\$950
10 Gracie Square	Co-op	PH	\$7,250,000	10/1989	----	----
4 East 66 th Street	Co-op	5 th floor	\$6,500,000	10/1989	6,800	\$956

A quick review of this table shows not only huge increase in prices relative to 1989, but also higher prices this year than at the peak of the market in 2008.

The averages of the available prices per square foot are \$7,906 in 2012, \$5,693 in 2008, and \$1,088 in 1989. Even without the huge \$13,048/SF sale at 15 Central Park West, the three remaining sales average \$6,193/SF, higher than in 2008.

Comparing the 2012 average to that of 1989, there was an increase of 627%. This is much greater than the 207% increase indicated for 4+ bedroom apartments on the earlier table.

The mix of these apartments has changed. There was only one condominium in 1989, 500 Park, and it was raw space. There were two condominium sales each in 2008 and 2012. Furthermore, condominium prices have gravitated to the very top. And it is the highest condo prices that have driven up the top-price average in 2012.

Thus while the price performance of large apartments, as a category, has not been stellar since 1989, a sampling of the most expensive apartments indicates that much of what we read is justified. There are many more sales of large apartments, and there has been an explosion in prices at the top.

Larry Sicular

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