HURRICANE SANDY, MANHATTAN'S HOUSING MARKET, INFRASTRUCTURE, PAYING FOR IT

Other than limited activity last week, it is much too early to measure the impact of this major storm on Manhattan's housing market. There have been no storms of this magnitude in New York's recent history and thus no clear precedent against which to speculate about future events.

The Market Impact of Prior Crises

Following the World Trade Center attack on September 11, 2001, a number of buyers backed out of deals or walked away from deposits, and the volume of new transactions declined, particularly in Tribeca. [1] A few wondered whether Manhattan was still a safe place to live, and some families moved elsewhere. However, the number of sales transactions, viewed on a quarterly basis, was not measurably affected. Indeed the impact of the late 2008 financial crisis, on the number of transactions, was much greater. [2]

Regarding price, the effects were similar, with the average price falling by only 2.7% in the third quarter of 2001 and fully recovering by the second quarter of 2002. In contrast, the average condo/co-op square foot sale price fell by 16.12% in the second quarter of 2009 and the quarterly average still had not recovered in the third quarter of 2012. [3] (Overall averages hide differences between locations, price strata and property types. Many Manhattan prices now do approach 2008 levels and, at the very top of the market, record prices have been recently obtained.)

Although neither of these events can be compared to Hurricane Sandy's October 29th storm, the World Trade Center attack was arguably more similar in that it was cataclysmic, brief, and over. Lives and property were threatened and lost, and there was a lengthy and costly cleanup. There was subsequently some worry about living in tall towers or near the Trade Center site in Tribeca, but despite the huge security, and eventually, international political and financial implications, the stalling of Manhattan's housing market was brief and limited.

The financial crisis was a huge economic event, but our physical security and our ability to occupy houses, stores and offices, was never threatened. Nevertheless, the economic consequences have dragged on and on, the financial clean up is far from complete, and the impact on both personal finances and on the Manhattan housing market has been much greater.

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[1] *The Impact of the World Trade Center Attack on Our Housing Market,* October 12, 2001, sicularassociates.com

[2] *Aggregate Data Search Engine, Manhattan, Manhattan, Co-ops + Condos, Number of Sales from 1989 to 2012,* Miller Samuel Inc., Real Estate Appraisers and Consultants. In 2001, the number of co-op/condo sales was 2,133 in the first quarter, 1,918 in the second, 1,990 in the third and 2,157 in the fourth quarter. In 2008, there were 2,654

[2] *Aggregate Data Search Engine, Manhattan, Manhattan, Co-ops + Condos, Number of Sales from 1989 to 2012,* Miller Samuel Inc., Real Estate Appraisers and Consultants. In 2001, the number of co-op/condo sales was 2,133 in the first quarter, 1,918 in the second, 1,990 in the third and 2,157 in the fourth quarter. In 2008, there were 2,654 sales in the third quarter, 2,282 in the fourth quarter, then 1,195 in the first quarter of 2009 and 1,532 in the second.

[3] *Aggregate Data Search Engine, Ibid.* The average sale price was $602 in the second quarter of 2001, $586 in the third quarter, $586 in the fourth quarter and then $578 in the first quarter of 2002 and $611 in the second quarter of 2002. The average sale price was $1,259 in the fourth quarter of 2009. It then dropped to $1,056 in the second quarter and $996 in the third quarter. The average was $1,103 in the third quarter of 2012.

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In the present circumstances, the impacts of Hurricane Sandy may also be brief. Once power and transportation are restored, life for most of us will return quickly to normal. There may be talk about the risks of living along the waterfront, or even downtown, given the city's vulnerable infrastructure, but arguably these hesitations will be quickly forgotten—until the next storm.

And this is where Sandy differs from the World Trade Center attack. Following the latter, federal and local governments put into place a variety of costly security measures, and we have not had a second significant terrorist attack in this country or in New York.

The same could true for the impacts of Sandy, if we could prevent or mitigate the impact of another storm. Temperature and sea levels are rising, and we are told that future storms are likely. A variety of improvements and changes to infrastructure are being discussed, but all of them are very expensive.

A Proposal

The substance of alternative proposals and costs will come from scientists and engineers; the public and its representatives will have to consider a variety of improvements relative to their effectiveness and costs. This is a very rich city, yet in the present economic and political environment, there may or may not be the will to pay, or to decide who will pay.

A variety of sources are likely but inadequate. The federal government's contribution to fighting terrorism, both at home and abroad, has been virtually unlimited, but this will not the true for infrastructure investments. Increased city or state income taxes may be difficult to impose. Higher utility rates, transportation fares, or gasoline taxes are another possibility, but these charges are regressive and will be strongly resisted. Increased business taxes, may have a negative impact on our ability to attract employment. Everyone has an interest in the needed improvements; but who has the funds, and whose interest is strongest?

Many businesses need not be committed to New York City. They are mobile, and if there are other storms, they can relocate elsewhere. Their most talented, trained, and affluent employees will follow them, particularly those that are younger and more mobile. Foreigners and affluent Americans from elsewhere need not invest or play here. These changes may be slow and incremental, but they will have a negative impact on our real estate holdings and on our livelihoods over time.

There is no guarantee that New York will remain a major financial and cultural capital if it shuts down for a week every year or two.

Owners of real estate and those of us who work in real estate have huge investments here. These investments are not easily liquidated if the housing or commercial property markets are weakened. We cannot easily move our sources of income, our network of relationships, or our capital elsewhere. We are much more committed to New York, yet we tend to be affluent, and therefore we have the resources to solve this problem.

There is a proposal outstanding for storm surge barriers at the mouth of the East River, near the Throgs Neck Bridge, at the Verrazano-Narrows Bridge and at the mouth of the Arthur Kill, between Staten Island and New Jersey. The estimated cost is $10,000,000,000.

As a hypothetical exercise, I estimated my share of a $10 billion dollar assessment on the city's property tax base.

Following are the taxable values and estimated taxes for the various tax classes of New York City property based on the tentative assessment published by the city's Department of Finance on January 19, 2012. Note that these calculations are imprecise in that they do not account for any abatements or exemptions. Each class's taxes are calculated as the 2012/2013 taxable value multiplied by the 2011/2012 tax rate.

Property Type	Taxable Value 2012/13	Tax Rate 2011/12	Estimated Tax Revenue
Class One	$15,768,967,725	18.205%	$ 2,870,740,574
Class Two	$56,460,339,515	13.433%	$ 7,584,317,407
Class Three	$10,936,710,013	12.473%	$ 1,364,135,840
Class Four	$81,038,036,908	10.152%	$ 8,226,981,507
Citywide Totals	$164,204,054,161		$20,046,175,328

For 2012/2013, my building, a co-op at 360 Riverside Drive, has a taxable assessment of $2,218,570. Using the class-two tax rate above, our estimated taxes are $298,020. Applying our share of citywide tax revenues to a $10 billion assessment, our building's share would be $148,667 and my share (based on the number of shares I own in the corporation) would be $2,721. This is a modest investment relative to the value of my apartment, about $600,000 and the significant costs of the past week. In my view, there is some urgency to addressing our infrastructure issues and finding a way to pay for them.

How could I say no?

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