EXPLORING THE MALAISE AT THE UPPER END OF THE MANHATTAN HOUSING MARKET
November 28, 2017

There is a malaise in the housing market, particularly at the upper end. I see it, and my colleagues are talking about it. Property is harder to sell, and buyers are hesitant. The following is an attempt to more fully understand this. A reasonable conclusion is that the malaise is inconsistent. Nevertheless, my limited research supports the following observations.

--On average, recent price performance, for many of the most expensive apartments, has been uneven, and it has also been unimpressive during this past real estate cycle.

--The condominium market now overshadows the cooperative market in both price and sale volume.

--Lackluster price performance in recent years is overshadowed by huge price increases since 2003-2004.

--Underlying drivers of volume and price increases have been more and higher-earning affluent households.

Not only is the current market inconsistent, but also the reasons for it are unclear. We read that the economy is performing fairly well, and the stock market is rising. Yet even in relatively privileged circles, not everyone is doing well financially. The bigger problem is perhaps the current political environment. While the Trump administration proposes regulatory and tax policies that benefit businesses and the most affluent, liberal New York remains unconvinced. Anger in the polity or inaction in the face of climate change, are viewed as bigger risks than the benefits of tax reduction.

Our chief economist cites the difficulties at the upper end of the market.
At a recent office meeting, Greg Heym, the chief economist at Brown Harris, stated that Manhattan is in the 8th year of a real estate growth cycle, following a bottom in 2009. However, we may have reached and passed its peak. There is now a slowdown that has affected volume more than price, and it is very possible that high-end prices will decline over the next six months. This anemic performance reflects the economy as a whole. The growth cycle, since 2009, has been the longest in US history, but we have not had a single year where the growth rate reached 3%.

The currents slowdown has most affected properties priced or selling at over $2 million.
This year's third-quarter out-performed last year's but both were slow. The upper end of the condo segment is overbuilt- so it has been particularly hard hit.

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Not all categories of the market are weak. The market for apartments priced under $2,000,000 has been much stronger. "Affordable" markets such as brownstone Brooklyn and upper Manhattan are still very active.

Statistics for the condominium market
The following is based on data published on-line at MillerSamuel.com.

For condominiums, average prices include delayed closings in new buildings, so that recent data may reflect market activity of the prior year or more.

The average price for the East Side-West Side-Downtown condo sales was $2,093/SF in the 3rd quarter of 2017, somewhat below the peak average of $2,288 in the fourth quarter of 2016, but well above any quarter prior to 2016. The peak of the prior real estate cycle was much lower, at $1,476/SF in the second quarter of 2008.

However, the volume of condominium closings in the East Side-West Side—Downtown market has declined. There were 1,345 closings in all size categories in the third quarter of this year; but the peak in the last cycle was 1,728 closings in the second quarter of 2008.

The average price, for the largest, 4+ bedroom apartments, was $2,863/SF in the third quarter, following a peak of $3,207/SF in the first quarter of 2017. The prior peak, in the first quarter of 2008, was a bit higher, at $3,368/SF. (These averages are much lower than the much higher square foot prices of large condominium buildings in new buildings.)

For the largest apartments, sale volume has nevertheless increased; there were 98 closings in the 3rd quarter, less than 126 closings in the 1st quarter of this year, but much higher than 72 closings in the first quarter of 2009--the busiest quarter in the prior cycle.

Downtown Condominiums
Nothing is hotter, in theory, than downtown condominiums. It is said that young, affluent householders have gravitated south from the staid Upper East Side. And so, I checked this market, south of 14th Street, for apartments selling between $5 and $10 million (as of 11/16/2017).

This market is indeed very large. As of November 16, there were 380 closings in this price range, many multiples of the number of cooperatives at the same prices sold in the prime Upper East Side, and indicative of an important shift in affluent market activity.

To estimate of the number of closings in new developments, I counted the number of closings in buildings with five closings, or more. By this definition, 243 (of 380) units were in new buildings. Given the delays is closing new buildings, many of the sales do not reflect commitments made in 2017.

However, by the same definition, there were approximately 137 resales, still more than double the number of $5 to $10 million dollar sales on the prime Upper East Side (see below).

Regarding individual sales, I reviewed the list of closings until I found five 2017 closings easily compared to earlier or later data. The following results were not entirely consistent.

In newish building at 17 East 12th Street, the pattern of sponsor sale prices, for 4,500 square foot units, indicates some decline from 2016 to 2017.

In a 10-year-old conversion at 225 Fifth Avenue, there are two 2017 sales, that compare favorably to 2016 prices. In one case a lower floor unit sold for $5,825,000 this year, while the higher floor, in the same line, sold for $5,995,000 a year earlier. In the second example, the lower floor unit sold this year for more than the higher floor, a year prior.

At 53 Greene Street, the 3rd floor sold in June 2017 for $6,750,000 and has recently been listed at $6,850,000 indicating conservative expectations.

Two other examples indicate slightly higher prices, in 2017, than in 2015.

The cooperative market on the prime Upper East Side
In earlier decades, the Upper East Side cooperative market, from Park to Fifth Avenues, was considered the gold standard for affluent housing in New York.

According to MillerSamuel.com, there were 114 cooperative closings, in this area, in the third quarter of 2017. This is at the high end of quarterly sales volume since 2010, and significantly exceeded by only 133 and 134 closings in the third and fourth quarters of 2013. The sale volume in the first quarter of 2007 was 110 closings.

Price per square foot, an average of $2,288 in the third quarter, is higher than in any earlier quarter, including the peak of the prior cycle, which was in the first quarter of 2009, when the average was at $2,116/SF. However, this is not much of an increase, over an eight-year period.

For the largest, 4+ bedroom cooperatives, the third quarter, Fifth-to-Park average was high, at $3,512/SF. This is similar to, or much higher than the average in many earlier quarters, but it is not the highest figure. The highest were $3,851 in the second quarter of 2014 and $3,861 in the third quarter of 2008.

Sale volume in the 4+ bedroom category is very limited. 18 of these apartments sold in the third quarter of 2017, exceeded only by 20 sales in the third quarter of 2014 and 19 sales in the fourth quarter of 2013. The highest 4+ bedroom, cooperative sale volume, in the prior real estate cycle was 22 sales in the first quarter of 2007.

A review of individual Upper East Side cooperative sales.
My own research indicated fifty-four, $5 to $10 million dollar cooperative sales in 2017 (as of 11/7/17), from Fifth to Park Avenues, 60th to 96th Streets. As indicated earlier, this volume in the $5 to $10 million price range, is now overshadowed by sale volume in the equivalent downtown condominium market.

Some of the apartments were indicated as being in new or “mint” condition; others were in fair, good, very good, or excellent shape—none of which indicate a new renovation. So it is not just newly-renovated apartments that are selling, although these are certainly the easiest to sell.

Reviewing a number of these apartments, although not all of them, I found five that were preceded by sales in the same line (same floor plan), in similar condition. One prior sale was also this year, and at a slightly higher price ($5,395,000 vs. $5,200,000), but for the other four, the prior sales were in 2016, 2015, and 2014, and the current prices are lower.

In the same category, there were 102 listings, almost a two-year supply. Nevertheless, 18 had signed contracts and the vast majority were listed this year. Buyers have a lot of choices, and prices may have softened, but this category of the market is not stale.

My listings
With my colleague, Caroline Guthrie at Brown Harris, I represent a large pre-war, seven-room apartment in a solid, desirable building at 58th and Park Avenue. It was listed in January at $3,500,000 and reduced in September to $3,295,000. The price was again reduced in mid-November to $2,990,000, and there have now been showings. A lower floor, in the same line, sold for $3,000,000 at the end of 2016. Both need(ed) renovation.

A 1940’s, one bedroom unit, at 120 East 79th Street, with open views, sold for $735,000 in the spring. We had a full price offer before the photographs were posted. The sale closed in June. A similar unit, in better condition, was recently listed at $750,000.

A Corcoran broker presented a buyer, for a client’s park-block townhouse in the East 80’s; we negotiated a sale in October. The contract was just signed. The price, which reflects the un-renovated condition of the house, is reasonable when compared to similar sales of the last couple of years. The listing was to have commenced this January.

Near Columbus Circle, I have a 1,215 square-foot two-bedroom apartment, with open views, on the 19th floor, first listed at $1,995,000 in mid-September. There were no offers for the first six weeks. The price was reduced to $1,875,000 at the beginning of November, and the first offer was made about a week later. The most recent prior sale, was for a similar, slightly smaller unit on a lower floor, at $1,950,000 in August.

These observations are not consistent. Two of these have sold quickly, at reasonable prices, but the other two listings have not yet obtained offers at the level of the recent earlier sales.

Longer- term trends
Among the many extraordinary things that characterize New York, is its concentration of wealth. New York City's affluent are a minority that has nevertheless grown, diversified and expanded its tastes in housing. The city now has huge housing shortages, in lower and middle price ranges, but a huge variety and choices for those at the top.

What is the nature of New York's growth in wealth?
We read constantly about the increasing disparities of wealth, in the United States. Here are some numbers from the US Census Bureau.

Share of Aggregate Income, Received by Top 5th and Top 5% of US Households[1]

Year	Highest fifth	Top 5 per cent
2016	51.5 %	22.6%
2008	50.0	21.5
2006	50.5	22.3
2000	49.8	22.1
1990	46.6	18.5
1980	44.1	16.5
1970	43.3	16.6
1967	43.6	17.2

Mean Household Income (in 2016 dollars) received by Top 5th and Top 5%

Year	Highest fifth	Top 5 per cent
2016	$213,941	$375,088
2008	$190,688	$328,531
2006	$200,191	$354,035
2000	$198,356	$351,902
1990	$155,252	$247,222
1980	$128,991	$192,763
1970	$119,648	$183,646
1967	$112,004	$176,675

These tables indicate two trends that we have all read about in the papers.

One is that the shares of U.S. total household income received by the top 20% and 5% of the household population have increased quite dramatically since 1967, although the bulk of this increase in income concentration was in the 20th century.

Secondly, that real incomes have almost doubled for the top 20% of households and have more than doubled for the top 5%. Again, the bulk of this increase was between 1967 and 2000.

[1] Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Household, All Races: 1967-2016, U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements

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Share of Aggregate Household Income by Quintile, New York County[2]

Year	Highest Fifth	Top 5 per cent
2016	62.2	30.33
2008	63.5	32.5
2006	62.9	31.8

I was unable to find the same length of historical data for New York City or Manhattan; however, the above indicates trends since 2006. The top quintile and top 5% shares of Manhattan household income have been relatively stable since 2006; however, the concentration of income at the top is more marked than for the nation as a whole.

The top households in Manhattan also have much higher incomes than in the US as a whole. According to US Census data published on statisticalatlas.com in 2015, the mean household income in Manhattan for the top 5% of households was $835,500, and for the top 20% it was $408,700.

As indicated below. Manhattan's population declined from 1950 until 1980. However, it has been regaining ground since 1980 and is projected to approximate the 1960 estimate in 2040.

Manhattan Population, 1950-2040 (projected) [3]

Year	Estimate/Projection
1950	1,960,101
1960	1,698,281
1970	1,539,233
1980	1,428,285
1990	1,487,536
2000	1,537,195
2010	1,585,873
2020	1,638,281
2030	1,676,720
2040	1,691,617

The above figures indicate growing population, consequently a growing affluent population, and a dramatic increase in incomes in the top categories of households.

How has this wealth increased and expanded the housing market?
The following information, again provided by Miller Samuel, is the volume of cooperative and condominium sales in prime Manhattan since 2003.[4] There has been a variation in volume due to the market cycle, with a peak in 2007. But there has also been an increase in volume over

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[2] Share of Aggregate Household Income by Quintile, New York County,

[3] New York City Population by Borough, metadata updated 10/3/2017, data.cityofnewyork.gov

[4] Source Miller Samuel Inc. and an e-mail exchange with Jonathan Miller indicating that cooperative sales were first posted to the public record in 2006 and that the posting included sales back to January 2003—so 2003 is the first year indicated here. The annual volume is derived from quarterly data.

time, for both cooperatives and condominiums. The long-term trend indicates an increase in activity of roughly 25%, when comparing 2015-2016 to 2003-2004.

Annual Sale Volume

Year	Cooperatives	Condominiums	Total
2016	5,502	4,993	10,045
2015	6,268	4,667	10,935
2014	7,079	4,569	11,693
2013	7,043	4,614	11,657
2012	5,734	3,930	9,664
2011	4,813	4,633	9,446
2010	4,557	4,850	9,407
2009	3,227	3,802	7,029
2008	4,308	5,306	9,614
2007	5,979	6,557	12,536
2006	4,092	4,055	8,147
2005	4,223	3,354	7,577
2004	4,908	3,272	8,180
2003	5,524	2,964	8,488

The following table, also based on Miller Samuel data, indicates sale volume by apartment size. In every size category, volume has increased since 2003-2004. Volume has increased significantly in the 1-bedroom markets and in the 2-bedroom co-op market. While the overall number of sales is much lower, the highest percentage increases in sale volume have been for the largest cooperative and condominium apartments, particularly for the largest condominiums. For 3-bedroom and 4+ bedroom units, there are now significantly more condominium than cooperative sales.

Average Sale Volume by Apartment Size

Category	Average sale volume 2003-2004	Average sale volume 2015-2016	% change
Studio co-op	951	1,005	6%
Studio condo	352	379	8%
1BR co-op	1,878	2,590	38%
1BR condo	1,080	1,746	62%
2BR co-op	1,009	1,487	47%
2BR condo	1,502	1,525	1.5%
3BR co-op	259	512	98%
3BR condo	151	776	414%
4BR+ co-op	110	169	54%
4BR+ condo	69	329	376%

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Average sale price
As indicated in the table below, the average sale price has increased most rapidly for 2-bedroom co-ops, but the increase indicated may be misleading, as the average price in this category took a huge jump in the 2nd quarter of 2017.

Otherwise, the average sale prices for condos, have increased more rapidly than for cooperatives. Of course, condominium prices are largely affected by the continual addition of new units in new buildings, whereas cooperative prices, with few exceptions, indicate appreciation of an existing housing stock. Nevertheless, the condominium apartment is pulling further ahead of the cooperative market, in both price and volume while larger units, specifically in the condo market, are becoming relatively more expensive than smaller units. That said, there have been significant increases in both volume and price in every size category of both markets.

Average Sale Price by Apartment Size

Average Price per Square Foot	4th quarter 2003 ($)	2nd quarter 2017 ($)	%change
Studio co-op	529	912	72%
Studio condo	684	1,253	83%
1BR co-op	578	1,052	82%
1BR condo	693	1,454	110%
2BR co-op	690	1,622	135%
2BR condo	904	1,927	113%
3BR co-op	993	1,570	58%
3BR condo	1,070	2,395	124%
4BR+ co-op	1,329	2,112	59%
4BR+ condo	1,237	2,937	137%

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