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The barbell effect

Manhattan sees boost in activity at ends of market, but middle lags

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A confluence of economic factors are causing a "barbell effect" in Manhattan's residential real estate market, where both the high- and entry-level segments of the market are seeing a surge in activity, while the middle of the market remains subdued.

Brokers and analysts told *The Real Deal* that they're seeing increased demand for starter apartments as low interest rates and rising rents continue to propel first-time buyers to make purchases. They said they're also seeing demand on the upper end of the market as wealthy foreign investors continue to view Manhattan as a safe haven while Europe is rocked by economic turmoil.

Meanwhile, the middle of the market, while not falling out of favor per se, is not seeing the same bounce in activity as the bookends of the market are.

"The market is sort of like a doughnut — strong at the bottom and the top but weak in the middle," said Jonathan Miller, president and CEO of appraisal firm Miller Samuel. "Mortgage rates are falling and it's skewing the mix. This is probably the fourth-consecutive quarter where we've seen elevated studio and one-bedroom activity in Manhattan."

According to Miller's data, sales of entry-level apartments (studios and one-bedroom units) and higher-end units (those with three bedrooms or more) ticked up slightly between the third quarters of 2010 and 2012 — the former to a 55 percent share of the market from 51 percent, and the latter to 15 percent from 13 percent.

But during the same period, sales of midsize apartments (those with two bedrooms) declined to 29 percent from 37 percent.

The decreasing affordability of Manhattan rentals — coupled with the fact that lower-end buyers are generally the first to respond to falling interest rates — is pushing nonowners to consider buying, Miller said.

Median rental prices surged 10 percent year over year in September, the most recent month on record, according to a first-time rental report that brokerage Prudential Douglas Elliman released last month.

Meanwhile, concessions from landlords are on the wane — they were offered in just 2 percent of deals tracked by Elliman in September, compared with 40 percent three years ago.

The average asking rent for a studio apartment was $2,113 and $2,789 for a one-bedroom. A two-bedroom was $3,989 on average, while a three-bedroom was $5,306, according to another report by Citi Habitats.

"We're seeing a lot of first-time buyers transitioning from rentals," said Mike Chapman, an executive vice president at Stribling & Associates. "It makes more sense for some people to buy than it does to rent."

On the high end, the market is also in full swing.

Luxury apartment prices are exceeding their pre-crash levels in some instances. Last month's high-profile closings include an anonymous U.K.-based CEO of a conglomerate of companies, who purchased three units at the Laureate at 2150 Broadway in a bulk deal for $21.88 million; New York-based hedge fund founder Jamie Zimmerman, who bought a three-unit assemblage of apartments at 965 Fifth Avenue for $17.9 million; and direct marketing entrepreneur Cheryl Mercuris, who purchased a six-bedroom home at Extell Development's the Aldyn for $13.72 million.

A host of pricey listings also came online, including a Greek Revival–style home at 10 West 10th Street owned by Andrea Soros Colombel, the daughter of billionaire investor George

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Soros, who is asking $29.5 million.

A duplex penthouse at 885 Park Avenue with an asking price of $35 million also came onto the market.

Meanwhile, one owner who had been considering putting his penthouse on the market for the last four years chose last month to do so; the long-vacant 12-room unit at 55 Central Park West was once owned by Calvin Klein and is also listed for $35 million.

On the new development front, brokers say the lack of supply is stoking the market. "Buyers are acutely aware that there is not a lot of new product coming to market, which is creating a sense of urgency, particularly for those shopping in new development," said Gordon Hoppe, director of sales at new development marketing firm Corcoran Sunshine. "Developers and sellers are thrilled with the heated market and are assigning bold price tags to new ultra-luxury listings."

Stribling's Chapman agreed. "We haven't had to negotiate on any pricing all year," he said. "We've even raised prices on listings that have been on the market for a while."

According to data from Corcoran Sunshine, approximately 1,500 new development units will be introduced to the market annually from 2012 to 2015. However, about 2,000 new development units were sold in the past 12 months alone.

"It's evident that new development demand is outpacing supply," Hoppe said. "Prices are increasing, negotiability is narrowing and the average time on the market for desirable listings continues to decrease. Newly introduced developments like [the Brodsky Organization's] 135 East 79th Street are successfully selling from floor plans." (See related story on page 50.)

By contrast, midsize apartments are not selling quite so quickly, thanks in part to the reluctance of banks to lend to homeowners hoping to trade up to two- or three-bedroom apartments.

"Many [of these kinds of buyers] have loaded negative equity," Miller said, "so they can't trade up. Pre-recession, credit standards were much easier; there was always a way. Now there's been an overcorrection in underwriting standards and [banks are] more risk-averse."

While the middle of the market is not weak in and of itself, it is lagging relative to the strength of the higher and lower ends of the spectrum, he said. TRD