



MANN REPORT

AUGUST 2010

RESIDENTIAL



The New York Condo Market

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The New York City condo market has significantly improved since the onset of the financial crisis in 2008. Starting in the second half of 2009, we saw quarter to quarter increases in transactions. These quarter on quarter gains in both average price and the number of sales through most of 2009 suggested that the condo market was growing steadily and would gradually recover to the point where new development would be viable in the market. However, the growth in demand has slowed so far in 2010. Due to mixed economic data both nationally and locally, the steady recovery in the condo market has been restrained, at least temporarily.

At the beginning of the national housing slump in late 2006 and early 2007 New York condo owners took comfort in the fact that their homes were still appreciating in value while sales and prices in the rest of the country were beginning to decline. REBNY's New York City Residential Sales report showed that the average price of a condo in New York City rose 25 percent in the first quarter of 2007, compared to the same quarter in 2006. The market at that time was buoyed by large bonuses at banks and financial firms, a weak dollar, and easily available and affordable credit. During the same time, the Case-Shiller 20 City Composite Index, which provides a national perspective, began to show year on year declines.

The financial crisis in 2008 though changed the New York City condo market, virtually freezing activity from late 2008 through nearly the first two quarters of 2009.

REBNY's quarterly residential reports showed quarterly increases in average prices and sales in the second half of 2009 for the first time since the financial crisis. This along with positive changes in macroeconomic fundamentals seemed to start a long but steady recovery in New York's condo market.

With an improving economic outlook, December of 2009 marked a high point in the recovery of the New York condo market. The S&P 500 was setting new post crisis highs every day; third quarter GDP growth was announced as being a robust 3.5 percent, and strong employment gains were being made both nationally and in the city. These positive economic factors brought confidence to the condo market and as a result there were over 1,200 sales in New York in December. In comparison, December 2008 saw only 490.

Unfortunately, uncertainty returned to the local and national economy leading to a slowdown in the New York condo market. Condo sales in January 2010 fell 31 percent from the strong December 2009 number. The average sale price of a condo in New York also fell 3 percent from December 2009. In February, the

average price of a condo flattened with a drop of 3 percent while the number of sales fell 7 percent from January.

After these two lukewarm months of condo sales, the spring buying season proved to be fairly strong in sales volume, but subdued in average prices. Sales surged month on month in March by 23 percent while the average price of a condo in New York City fell 7 percent. Sales stepped back slightly in April from March by 9 percent but the average price rose by 7 percent. In May the average price of a condo was \$1,088,395, a 3 percent drop from April, but sales rose 6 percent to 914.

These two periods in the condo sales year, the quiet winter and the resurgent spring, showed a return to the typical ebb and flow of sales which is a sign of renewed health in the market. The continued recovery in the New York condo sales market will depend on the growth in the economy, nationally and locally. During the second half of 2009 the recession technically ended as nominal GDP growth in the third quarter was 2.2 percent (revised down from 3.5 percent). Fourth quarter growth bettered this with a growth rate of 5.6 percent. This growth was largely attributed to the restocking of depleted inventory in consumer goods. The first quarter of 2010 economic growth slowed to an annual rate of 3 percent with a significant contribution from personal spending. Although this growth rate is in line with the long run average of the United States economy, personal spending may not be a sustainable factor in economic growth given the overwhelming debt burden on the American consumer.

Jobs and unemployment have been a key issue in the economy since growth in the labor market has lagged. The unemployment rate currently sits at 9.7 percent nationally and the modest declines have been attributed in part to people dropping out of the labor force as job seekers finding work. Furthermore, after dropping steadily through most of 2009, new jobless claims have remained around 450,000 since the beginning of 2010. Locally, the New York City labor market is improving but at a slowing rate as well. Private job growth in March and April were respectively 7,700 jobs and 16,300 jobs above their ten year averages, but growth in May stalled when employers added 600 fewer private jobs than the 10 year average.

The New York condo market has made a significant recovery since the financial crisis of 2008. The market has regained its seasonal trend but its future growth will depend on sustainable economic growth and meaningful growth in employment. This broader economic recovery is essential for the absorption of the inventory overhang in the condo market, and a return to a market in which new development is viable.

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