

# New York City Still Building and Selling, Despite a Tightening Financial Market

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New York City's residential real estate market continues to prove that it is unlike any other in the country. According to the ResidentialNYC.com report, the average sales price for a home in New York bucked the national trend by increasing 15-percent to \$732,000 in 2007. This robust market was sustained by Manhattan condominium sales whose average sale price climbed 17-percent to \$1,434,000. The average condominium sales price in all the other boroughs also showed an increase year to year.

As the media frenzy about the credit crisis captured the headlines, REBNY developers were optimistic about the future of the Manhattan condominium market. We received frequent calls from builders asking how their new projects can qualify for the city's 421a tax exemption program, whose benefits were to change in 2008. These calls were not simply for information. These were developers who were committed to the start of a new project to take advantage of the program. And they were not alone in their optimism: in the last four months of last year, permits for new residential units continued on a record pace, with nearly 32,000 for the year. Manhattan and Brooklyn,

with their vibrant condominium markets, accounted for nearly two-thirds of the new units, with 9,520 and 10,930, respectively.

At two recent REBNY events — a commercial seminar on the capital markets and an Economic Development committee meeting on lending activity — both panels of distinguished guests were upbeat about financing new residential development. As noted at these events, there are many active players in the lending market including local banks, insurance



companies, financial companies and foreign banks. Though Wall Street and the CMBS market have pulled back for now, they are expected to return to the market by the end of 2008.

In short, there is plenty of financing around and continued interest in deals in the vicinity of \$100 million, with multifamily rentals especially strong. These financial transactions have increased cost between 50 and 100 basis points and will require more equity. These new terms

will ensure the continued viability of these new developments and instill greater confidence in new homebuyers.

The confidence in the New York City market and new condominium development is attributable to the resilient sales market and the unique structure of the city's housing market compared to the rest of the country. New York is a city of renters. More than two-thirds of its three million housing units are rental and one-third is home ownership. In the rest of the country, the percentage of renters to homeowners is the reverse. As a result, a softening in the sales markets in these areas are likely to have a greater impact on their local economies.

Another unique aspect of the city's housing market that has insulated it from the adverse effects of the sub-prime problem is the large number of co-op units that comprise our home ownership inventory. More than 30-percent of the owner occupied units in New York are co-ops in which the boards restrict the amount of debt a buyer can take on.

Lastly, while condominium development is highly popular today, condo units account for less than 10-percent of the city's home ownership stock, making the city's economy less vulnerable to any sub-prime problem that could emerge in this segment of the market.

The two recent and sig-

nificant rate cuts by the Federal Reserve will benefit many homeowners with adjustable rate mortgages that are scheduled to reset. In addition, these actions, and the anticipation of more reductions, can be expected to bring more local buyers back into the market. The lowering of financing costs and the growing number of foreign buyers benefiting from the weak dollar will bolster demand for new condominium units coming online throughout the city in 2008.

In the last six months, despite all the pessimistic news stories about the market, homebuyers have been able to find financing to purchase their ideal apartments. True, lenders have stepped up their level of due diligence, and credit checks have been taking longer and have been more thorough than at the beginning of 2007. Nevertheless, prospective buyers will continue to find many choices and reasonably priced borrowing and will benefit from the interest rate reductions from the Federal Reserve.

New York is the safest large city in America and the financial capital of the world. Our population is growing and we continue to create new jobs. Tourists from across the country and around the world are filling our hotels in record numbers. New York's economy continues to prosper and its housing and condominium markets remain strong.