



# TMO NEWS

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AUGUST 2011

# MANN REPORT RESIDENTIAL



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### Why The Case Shiller Index Is Meaningless For New York

by Steven Spinola  
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The Case Shiller Index released in June 2011 showed declining housing prices in 19 of the 20 metropolitan areas tracked by the index. The extensive media coverage of this unfavorable news, especially by the New York media, rekindled fears that the housing market was headed for another significant drop and that the dreaded “double dip” recession was imminent. The conclusions of the index though were refuted by the findings of recent Real Estate Board of New York Residential Sales Reports based on the entire New York City residential sales market.

Greg David of *Crain's* also disputed the result of the Case Shiller Index that housing prices had returned to the levels of 2002, in essence wiping out a decade of price appreciation. He pointed out that in New York City the average sales price for a home had returned to the level in 2007, referencing the Real Estate Board of New York Residential Sales reports.

However, if the New York media examined the methodology used in the Case Shiller Index, it would have learned that it was an inappropriate tool for measuring the New York City housing market.

New York City's market is unique in a number of ways compared to many of the other major markets Case Shiller covers. First, more than two thirds of the housing market is in the form of rentals and most are regulated. In most cities, individual ownership units account for two thirds of the housing stock. Second, almost 30 percent of New York City's owner occupied housing is composed of co-ops, which require buyers to have their financial status approved by the co-op's board as a condition of their application to buy into the co-op. Finally, there is a high concentration of new developments in our condominium inventory.

The Case Shiller Index looks only at single-family homes, which are only 30 percent of the total New York City residential sales market. It does not consider new developments, cooperative apartments, condominium apartments, or multiple family houses for its measurements. As such, it is an unreliable tool for assessing the sales market for Manhattan, Brooklyn, Queens and Bronx where most ownership housing is in the form of co-op and condo apartments as well as new developments. Staten Island is the only borough in which the housing stock composition matches the methodology of the Case Shiller Index.

Looking at the most recent sales data New York City's housing

market has been slowly, but unevenly, recovering from the financial crisis that began in September 2008. The average sales price for a home (co-ops, condos, and single family homes) in New York City was \$732,000, up four percent compared to a year ago. The average sales price for an apartment was \$875,000, up three percent compared to a year ago. Transaction volume was up two percent, and total consideration was up one percent in the first quarter of 2011, compared to the fourth quarter of 2010. However, compared to last quarter, some indicators were down: the average New York City home sales price was down one percent, the average apartment sales price was down three percent.

Based on REBNY's First Quarter Residential Sales Report, which covers all five boroughs and all owner-occupied housing, the market is significantly better than the low point in the market in the second quarter of 2009 and modestly improving without the benefits of federal tax credits or pent-up demand, which drove the improvement in the market from the later part of 2009 and the early part of 2010.

Despite these modest improvements, there is other New York City housing information that could be problematic for our housing market. At the federal level, the conforming loan limits (\$729,000) for high cost areas such as New York, which has kept financing costs low for qualifying mortgages, is scheduled to be lowered beginning in October 2011. This would hinder sales activity by raising costs, while our economy struggles toward a full recovery.

At the state level, we need a real property tax exemption program to be extended in order to offset the high real property taxes on new development. Finally, new housing permit activity through the first four months of 2011 stands at 1,640 through April. This is about the same level of activity as the same period in the last two years when we averaged about 6,000 units for the year. To put this in perspective, this is an 80 percent decline from the high point when we were issuing permits for more than 30,000 units a year.

The New York City housing market is improving but still faces challenges. We should be questioning reports that present a highly negative view of our market, as Greg David did, and determine whether it is actually an accurate and fair presentation of our market. ■

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