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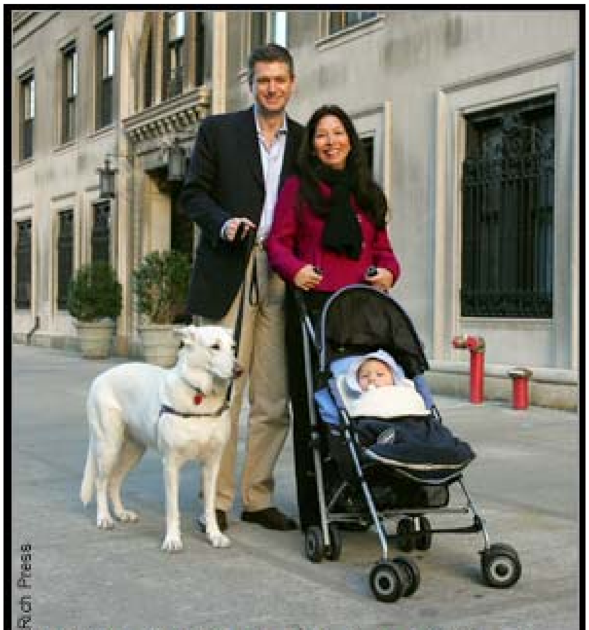
COVER STORY

RIDING THE STORM
NYC MARKET WONDERS IF PARTY'S REALLY OVER

By Max Gross

LAST spring, Wilbur Gonzalez, a broker with Brown Harris Stevens' ID Marketing Group, sold a $10.5 million condo at the still-unfinished One Madison Park.



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AS TIME GOES BUY: The Palombo family (above); Colin, Claudia, baby Marcus and dog Emma, are looking for a three-bedroom on the Upper West Side and finding that their options are a lot better than they were six months ago.

Gonzalez's client, a banker, was not particularly thrilled about putting the $1 million deposit into escrow.

"Why can't we put it in something more aggressive?" Gonzalez's client pleaded as he wrote the check. In escrow, his money would only yield a percentage point or two.

"Sorry," Gonzalez replied. "We can't invest your down payment."

About two weeks ago, Gonzalez ran into his client at a party.

"Thank God I put that money in escrow!" the client exclaimed. "If I had left it in my index fund, it would be down 43 percent!"

Call it one of the weird silver linings of the current economic crisis.

But silver linings were few and far between in 2008, when the New York real estate market finally fell to earth. Fewer apartments are selling now, and many of those that are moving are doing so at a big discount.

And with the demise of so much of Wall Street, real estate experts predict it all will probably get worse before it gets better.

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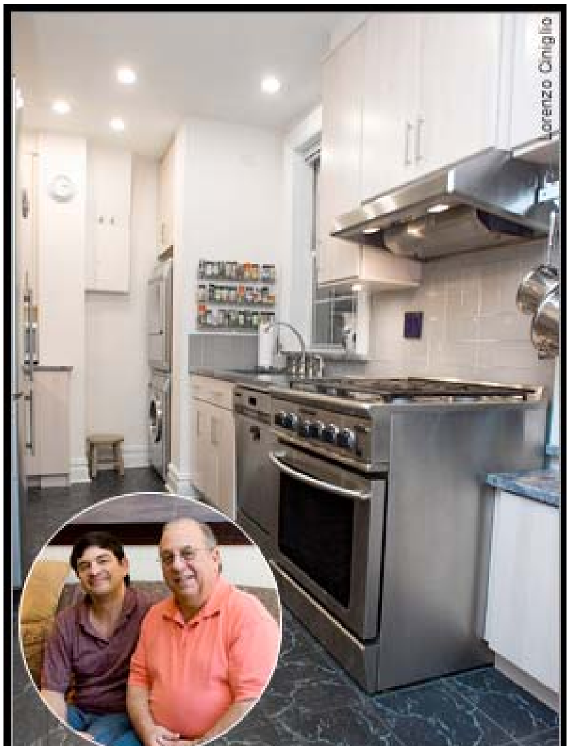
"Wall Street provides 5 percent of the New York job market," says Jonathan Miller, president and CEO of appraisal firm Miller Samuel. "But it's 25 percent of the income."

Given that financial sector job losses will likely be tens of thousands (or more) - and that a large part of the NYC housing boom has been fueled by Wall Street bonus money - this does not bode well.

"The cut in bonuses could be anything from 25 to 75 percent," says Miller, who adds that he's heard layoff figures as high as 65,000 by the end of the year.



Sellers like Michael Joblin and his partner Gilberto Montero (inset) are slashing their asking prices and hoping that the market improves.

Though the full effect has yet to be felt, the current data is already startling. According to figures released by appraisers Mitchell, Maxwell & Jackson, the average price of a Manhattan apartment fell 8.8 percent from the first quarter of this year to $1.418 million, down from $1.552 million. And the number of contracts inked in September and October were down 75 percent from the same time last year.

A lot of real estate professionals are expecting prices to get even lower.

"We clearly think New York City real estate is going to drop 14 percent to 17 percent in the next 12 months," says Michael Moskowitz, president and underwriting manager for mortgage company Equity Now.

Neighborhoods like the Financial District and Harlem have a glut of new inventory, and thousands of new apartments are sitting unsold.

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But this isn't just a neighborhood-specific problem. The extremely high-end Plaza project - setting sales records last year - is now embroiled in lawsuits and has 28 of its 181 units back on the market.

And while Manhattan hasn't yet suffered a huge amount of foreclosures, the same cannot be said for the outer boroughs.

"There are neighborhoods in Queens, like Jamaica, where literally every sale is a foreclosure sale or a distress sale," says Sam Heskel, executive vice president of appraisal firm HMS Associates.

In Brooklyn, "condos took a hit pretty much across the board - Williamsburg, Greenpoint, Clinton Hill," Heskel adds. "A lot of developers . . . can't sell their units so they're panicking. Some are changing to rentals. They're choked up with construction loans. They can't sell the apartments and can't pay back the loan."

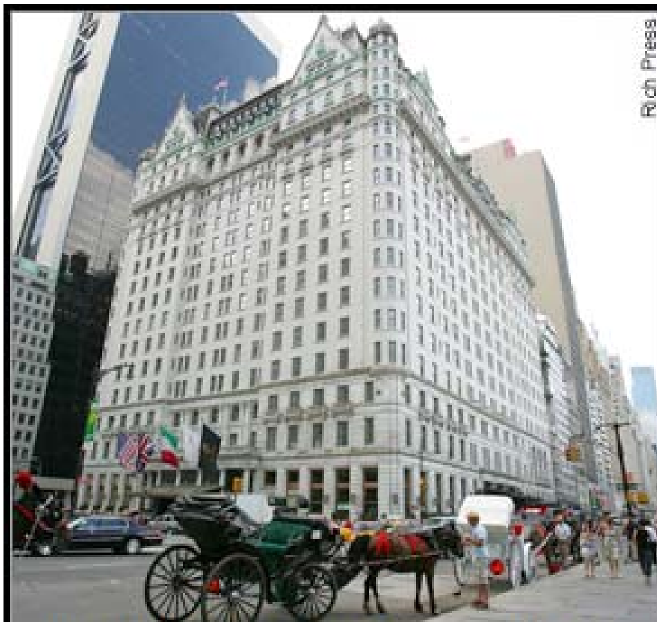
Individual sellers are frustrated as well.

"We're not forced to sell," says Michael Joblin, who put his two-bedroom Park Avenue co-op on the market for $1.795 million back in September. "I'm retired . . . and I could theoretically wait forever."

But Joblin and his partner, Gilberto Montero, were hoping to enjoy retirement in California. A couple of weeks ago, Joblin and his broker, Maggie Kent of Core Group Marketing, agreed to lower his asking price to $1.645 million.

"There have been a reasonable number of lookers" since the price was lowered, Joblin says. "But not even a lowball offer."

"Right now we are basically in a



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BLEAK HOUSE: After fetching astronomical prices a year ago, the Plaza (above) has been racked with lawsuits and now has numerous resale units on the market.

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situation where we have to go back in time," says Jacky Teplitzky, managing director at Prudential Douglas Elliman. "You cannot price anything according to the last six months of 2008 - you can't price

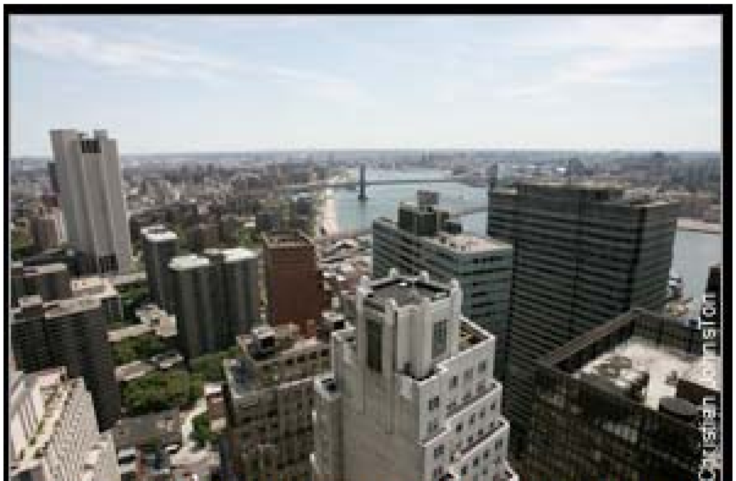
according to 2007! So how far do you have to go back? I'm optimistic we're somewhere between 2005 and 2006. But every single case has to be looked at differently."

And if developers and sellers are nervous, the same is definitely true of brokers.

"Panic is pretty much ruling the day," says James Lansill, senior managing director for Corcoran Sunshine Marketing.

Which, he adds, is not necessarily justified.

"People are broadcasting a negative taint to real estate in general," says Lansill. "They're treating all real estate as a volatile asset and forgetting that real estate is ostensibly bricks and mortar, and New York has shown resilience historically."



Certain neighborhoods, which were loudly hyped in the past, like the Financial District (above) are seeing a glut of inventory that will likely remain on the market for a while.

Yes, New York has weathered this storm far better than other cities.

"At the end of the third quarter, the absorption rate was 7.9 months," says Miller. "That's the number of months to sell all inventory. And if you compare that to Miami - which is about 60 months - or the DC condo market, which is about 40 months, it's relatively good."

Miller acknowledges that the absorption rate will no doubt be higher next quarter. But

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one good thing for anybody with an apartment to sell is that there probably won't be much new construction in the coming year. This will likely keep the absorption rate low.

The real winners in the market for now, naturally, are buyers.

Developers of new-construction buildings, who have often avoided slashing asking prices at all costs (by doing things like paying for closing costs, or throwing in a free parking space) have succumbed to the new reality.

"Sponsors have been willing to negotiate," says Sarah Burke of the Developers Group, who is marketing a number of properties in Brooklyn. "Some people - people who I think are not real buyers - make really low offers. What happens in that case is the sponsor counters. Someone who doesn't respond to a counteroffer is not a real buyer . . . but [for real buyers] we're typically able to negotiate."

And this seems to have some effect; Brooklyn condos including Isabella, the Satori, the Absolute and Viridian have offered to pick up transfer taxes, buy down mortgage rates for prospective buyers and negotiate up to 5 percent off the purchase price.

SWEETENING THE DEAL: Buildings like Viridian are picking up buyers' transfer taxes.

"Each of those buildings has negotiated three deals, each from one or a combination of [those offers]," says Burke.

"The buyer is treating value different every day you speak to them, based on their own personal fortune," says Lansill, who has seen some buyers agree to a deal and then see some swing in the Dow and "lower that offer that day or the next day."

And as prices fall, a lot of buyers will sit on the sidelines and wait for the bottom of the market.

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"It's funny. Now that it's a buyer's market, your aspirations go up," says Colin Palombo, who began looking for a three-bedroom on the Upper West Side with his wife, Claudia, two weeks ago.

The family went through almost a dozen open houses - but made the decision not to move too quickly. They figure they have time to really search for the perfect place.

"We plan or we hope to have something finalized by February," says Palombo.

"There are definitely buyers out there," says Pam Liebman, president and CEO of the Corcoran Group. "Our open-house traffic is people looking for real value."

But Liebman adds that the market won't be the same in the future; it won't be as dependent on Wall Street.

"The doctor," she says, "is the new investment banker!"