

Cracks May Appear in Manhattan Apartment Market

By Iaina Jonas
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NEW YORK (Reuters) - At the end of July, **Deanna Kory** had a bidding war on her hands. Three potential buyers were vying for a luxury apartment the Manhattan real estate broker was selling for a client at a \$4 million asking price.

On July 27, the end of a week when the Standard & Poor's 500 stock index suffer its worst one-week percentage drop since 2002, she called the winning bidder with the good news. The next day he withdrew his bid for the Upper West Side home.

There is no sign of a downturn in sales figures for now, but Kory's experience may be an early sign of weakness in the robust Manhattan market that could be vulnerable to struggling stock markets, hedge fund losses and newly cautious lenders.

"I guess he called his mortgage person and found it wasn't going to be as easy as he thought for him to get what he wanted. He got nervous and decided not to proceed," said Kory, senior vice president of the Corcoran Group.

She also suspects he may have feared his bonus was going to be hurt by the market's slide. The bidder, like much of her clientele, works in the financial industry.

Manhattan is among the few U.S. real estate markets to remain buoyant. Elsewhere, demand for homes has slackened, numbers of homes for sale have swelled, and in an increasing number of markets, prices have declined.

Fat Wall Street bonuses handed out at the beginning of this year, a relatively strong New York economy, and foreign buying fueled by a weaker dollar, have driven Manhattan apartment prices higher. In the second quarter, the median price of a Manhattan apartment rose 1.7 percent to a record \$895,000.

Other nearby markets with roots in the financial community, such as Greenwich, Connecticut -- the headquarters for many hedge funds -- and the summer playground of the Hamptons on Long Island, have also been resilient.

Real estate experts say the size of bonuses may be crucial and the market may meander until it becomes clear whether those sums will be slashed from the record amounts handed out in early 2007, an estimated \$23.9 billion.

"They stimulate demand just because after a good bonus year there is so much more activity in the first few months of the year that sets the tone for the spring market," said Jonathan Miller, chief executive, of appraisal firm Miller Samuel Inc.

"If this situation continues to erode... I think compensation would be more impacted in '09 than '08, just because we've already had a good year," Miller said.

Credit tightening stemming from bad loans to less-than-creditworthy home buyers also has infected the market for mortgages for borrowers with better standing.

Given the expense of buying an apartment in Manhattan, many buyers use jumbo mortgages, defined as those over \$417,000. Some risk-averse home lenders are curbing their jumbo lending or raising rates.

Jumbo mortgage rates are about a half a percentage point higher than they should be, said Eric Appelbaum, president and owner of Apple Mortgage. "If this isn't corrected, I think it could put a serious damper on two- or three-, or four-bedroom apartments in the city," he said.

But real estate experts said it will take more than a couple of weeks of financial instability to put the brakes on Manhattan real estate.

And August is a slow time for real estate, as Manhattan's well-off head to summer retreats in places like the Hamptons, the Catskills and Martha's Vineyard. Any slowdown will be difficult to detect for now, brokers said.

"I still have people signing contracts, but it will be much easier to tell if there's impact a month from now," said Frederick Peters, president of Warburg Realty.

TIGHT SUPPLY, CO-OP BOARDS

A limited supply of properties in Manhattan and related markets has helped keep prices up.

"It's all about the inventory," said Andrew Saunders, senior vice president of Sotheby's International Realty in Bridgehampton. "In the \$5 million-and-up market there is just not a lot."

In the Hamptons, tight rules about what can be built and the desire to be near the beach has limited supply. Meanwhile, the Greenwich market is relatively small with only about 900 sales a year, said David Ogilvy, president of David Ogilvy & Associates, a Christie's Great Estates affiliate. Prices for residential properties in Greenwich run from \$600,000 to about \$39 million, and many people buy with cash.

"Some of these hedge fund people have made so much money, they're not looking to sell their homes," Ogilvy said. "If they have to cut back... they don't use their jets."

Manhattan has another layer of protection: co-op boards. About two thirds of all the non-rental residential units in Manhattan are co-operative apartments.

In a co-op, the apartment building becomes a corporation. Instead of owning their individual apartments, buyers own shares in the corporations, which are governed by boards.

The boards can demand buyers put a large percentage of their own money down, often 25 to 50 percent. In addition to being asked about their current assets and income, buyers may also be asked about their career prospects.

"Most co-ops have always held a more stringent underwriting standard than even the most stringent bank," Appelbaum said.