THE DEANNA KORY TEAM

NEWSLETTER

Manhattan Real Estate Review

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2020: YEAR IN REVIEW

It is hard to believe that in January 2020, only a year ago, sales activity in the Manhattan real estate market was increasing. At the time there was a sense of optimism – a refreshing change from the previous two years. While there were some fears of a recession as we began the 11th year of economic expansion, significant pent-up demand for properties, record low interest rates, and more realistic sellers fueled a strong start to the year. It finally seemed as though the market was looking up, and industry analysts predicted a more active spring market. Of course, everything changed mid-March when the world shut down due to COVID. From March 22 through June 22 New York City shut down and in-person real estate activity came to an abrupt halt. This devastated the real estate market in Manhattan: sales volume dropped by 75% during that time, causing a 30% drop in overall sales volume in 2020 relative to sales volume in 2019.

During the shutdown, many people left the city to ride out the pandemic, frightened to return because of the high number of COVID cases in NYC. During what is typically our most active season, everyone who could was working remotely. Savvy buyers began to see opportunities: prices were dropping 5-15% in the high end of the market; sellers and developers were becoming negotiable and there was little buyer competition. Nevertheless, most individual sellers were prepared to ride out the market hoping that it would recover to some degree, especially because prices had already suffered from oversupply and were also impacted by the loss of state and local tax deductions (SALT).

Rental prices were hit the hardest as renters could more easily pick up and leave the city. By November, rents dropped 12.7% versus the same time in 2019.

Most contracts signed at the end of June were under $2M. Many first-time buyers were taking advantage of low interest rates, but there were also buyers who were trading up for more space because of the need to work from home. In addition to the typical slowdown for luxury sales in the summer, there was much uncertainty around school reopenings and the expected winter coronavirus spike. Despite these anxieties, beginning September 2020 the number of weekly signed contracts started to exceed 2019 and sales between $2M and $4M began to accelerate – a trend that continued through the end of the year. Sales were buoyed in the late Summer/early Fall because of looser COVID restrictions and lower case numbers.

In November and December there was a great deal of optimism because the election was over and vaccines were approved. Once again, sales surpassed 2019. This was a positive bookend to an unprecedented year ending in much the same way that it began: with the Manhattan market exhibiting signs of stabilization and resilience.

FOURTH QUARTER 2020

In the fourth quarter, the number of closings increased versus the previous two quarters, signed contracts returned to pre-COVID levels, and supply growth slowed.

New deal activity increased significantly in the fourth quarter, both in signed contracts and quarterly growth in closings. Contracts signed, the timeliest indicator of current demand, rose year-over-year each month during the quarter, and cumulatively by 8% versus 2019, to about 2,800 deals – the best performance for contracts since second quarter 2019. Closings, although down 30% year-over-year resulting from the spring pause in the market, grew 18% from last quarter to about 1,900 sales, bringing the 2020 total to about 7,600 transactions.

Despite the improving deal activity, active listing inventory in the fourth quarter was still 36% above 2019. Inventory hit its highest year-end

On the Market: *1 West 67th Street, Penthouse 909, $12.85M*

level since 2008. But supply growth did slow this quarter. Listed inventory rose just 4% versus third quarter 2020 and, for the first time since March, reverted to typical seasonality and declined on a monthly basis in November and December. The slowdown in inventory is a positive sign for the market, however the current high supply is still one of the most significant headwinds facing the Manhattan market's broader recovery.

Fourth quarter closings reflected deals signed since March. This provided a clearer picture on COVID sales prices: Buyers closed on larger apartments, and were seeking value, prioritizing space and layout over building and location, which drove the median price up about 4% to $1.044M but pulled average price per square foot down 8% to a four-and-a-half-year low of $1,615.

LUXURY MARKET

The luxury market above $4M followed the general market in 2020 however prices were more adversely impacted.

During 2020, there were 645 luxury contracts signed – a 31% decrease over 2019. In addition to the devastating effects from the pandemic, the luxury market was also subject to lack of confidence as well as buyer flight to second homes. Many sellers of luxury homes did not feel pressure to sell and decided to wait out the market. Listing inventory shrank to its lowest level in nine years in the third quarter. At the end of the third quarter, many buyers came back to the

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market and began purchasing luxury apartments, thereby taking advantage of a larger negotiating room on higher end properties aided by a stock market rebound and low interest rates. The fourth quarter clearly benefited with an uptick in the number of luxury sales: 232 sales vs 229 in 2019. In fact, during the first week of January there were 27 contracts signed over $4M – significantly higher than the last two years during the same week.

WHAT'S AHEAD: FORECAST

BUYERS

It is still a buyer's market in NYC. However, based on recent increased market activity, the window of opportunity may be closing as many sellers are not desperate to sell as many would like to believe. The more desirable the apartment, the less negotiable. We are also finally beginning to see sellers set more realistic prices which means less negotiability. Industry experts predict an active spring market due to pent-up demand, increased consumer confidence and all-time low mortgage interest rates.

SELLERS

Sellers may not think this is the right time to put their property on the market, but there are many compelling reasons to do so. Even in the midst of the most challenging time of the pandemic, there is stronger buyer demand. Buyers can see the light at the end of the tunnel and believe that now is a good time to purchase in New York City. Low interest rates and pent-up demand add to the appeal of a purchase at this time. Historically the first and second quarters of the year are the strongest time to sell and all signs point to this year following that pattern. However, it is important to keep in mind that in NYC, markets are broken down into segments and currently the downtown prime market, prime condos and prime new development are selling well. Uptown, Condo new developments are stronger than prewar apartments sales – which are strengthening in some areas and stagnant in other locations.

Historically Low Mortgage Rates

Rates fell to another record low the first week of 2021. According to Freddie Mac, the average interest rate on a 30-year fixed rate mortgage dropped to 2.65% and a 15-year loan to 2.16%, the lowest levels in nearly 50 years! It is even an entire percentage point lower than the beginning of 2019 when a 30-year loan was 3.64% and a 15-year loan was 3.07%. According to Freddie Mac's chief economist, "the forces behind the drop {in rates} have been shifting over the last few months and rates are poised to rise modestly this year." This window, along with negotiable prices offers those on the fence to stretch their budget and buy a larger apartment than they might have considered in the past.

Tax Relief

It is possible that with Democrats holding both chambers of Congress and the Presidency, there will be a reversal of the cap on SALT deductions that was instituted during the past administration. Andrew Cuomo is advocating strongly for this to happen. The impact this has had on New York City and the Manhattan real estate market over the last three years cannot be overstated. Reversing this will be beneficial to sellers and the market in general. President Biden also campaigned on a promise to give first-time home buyers a tax credit of up to $15,000, although in NYC this will be more helpful in the low end of the market.

Vaccine Rollout

As of this writing New York City is in the first phase of the vaccine rollout and it is expected that the overall population will start getting vaccinated this summer, which will add to buyer confidence.

Optimism

2020 was an exceptionally difficult year for everyone. The fact that schools may finally open full time in the Fall and the hope that NYC will be once again open for business by the end of the year is palpable even while COVID cases increase. New York State vaccination program and the fact that our state COVID cases are more moderate than other states help fuel optimism for those who love New York.

Foreign Buyers

With COVID travel restrictions, the number of foreign buyers dwindled dramatically. In addition, to promote transparency and prohibit money laundering a new NYS tax law took effect in September 2019 that requires companies to disclose names of individuals who own interest in an LLC of a residential property. While this has likely inhibited some of the more extravagant foreign purchases, if previous downturns are our indicator, foreign buyers will be back. This will certainly help sellers of properties in the high end.

New Development Negotiability

To offset the pandemic's effect on the market, developers of high-end condos offered some of the highest discounts and concessions we have seen in 2020. Concessions often came in the form of closing costs, discounted costs on amenities such as storage and parking and common charge rebates. It is likely that developers will continue to offer incentives this year. In new development, negotiability percentages will vary greatly because some buildings are in strong demand and others either are not as desirable or were overpriced. The number of sales has been increasing in new development over the past few months, and if that trajectory continues we will see some buildings dropping some of these concessions or holding firm on sales prices. As such it is strongly recommended not to delay if one is considering a purchase in new development.

Inventory

As mentioned above, too much supply is still one of the most significant issues with the potential to affect market recovery. November had the second highest number of listings on record with over 12,000 active listings. High inventory levels may be the force extending downward pressure on prices into the new year especially in the high-end of the market where asking prices are slow to come down.

Pied-a-terre Tax

The pied-a-terre tax that was once proposed by New York State a few years ago was replaced with the scaled mansion tax to the relief of New Yorkers but it is now back on the table. This proposed tax will affect all New York City homeowners and seriously inhibit the recovery of the real estate market for years to come. New York homeowners who are already suffering with enormous tax liabilities cannot sustain the weight of more property taxes. We urge homeowners to learn about this and write their state representatives to oppose it. For more information about the proposed tax, visit https://nychomeowners.org. I would be happy to answer any questions you have.

Although the NYC real estate market is still struggling and the consequences of the pandemic will continue to shape the market, the optimism being fueled by the historic low interest rates, the vaccine rollout, a new administration and a potential repeal of the SALT cap has already increased buying activity.

Sellers still need to be realistic and willing to negotiate. It may be helpful to get several opinions from knowledgeable brokers on pricing their properties to fully understand the true market value of a property. If you are considering selling a property below $2M, it is definitely a good time to put your property on the market as these buyers are more impacted by low mortgage rates. More normalcy will return to life in NYC throughout the year, and those who left will in large part return to the city. We also believe that savvy buyers know the advantages and opportunities of acting now.

As always, if you are considering buying or selling or just want to discuss your goals and options, we are here to help you. Please contact me directly at dek@corcoran.com or (212) 937-7011.