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After long journey, New York's high-end real estate is here to stay

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New York's Fifth Avenue

By FORREST CARDAMENIS

NEW YORK New York's status as a haven for ultra-luxury real estate is the culmination of a decades-long journey and primed to continue over the next several years, according to the CEO of Halstead Property at Luxury FirstLook: Strategy 2016 on Jan. 20.

From bankruptcy in the 1970s through the boom and recessions of the 80s and 90s and another cycle in the past decade, New York has maintained and reignited desirability through times good and bad. Recent years are particularly good indicators of the city's desirability, and the shift in clientele will help it maintain that position.

"In the mid 70s we were on the brink of bankruptcy and the government was not inclined to bail us out," said Diane M. Ramirez, CEO of Halstead Property. "The city in general didn't feel safe; it wasn't the clean organized city it is today.

"Our transport system was frightening with its graffiti clad cars and had high crime statistics," she said. "But what it represented to us was a chance to be the best we could be both professionally and personally."

Luxury FirstLook: Strategy 2016 was organized by Luxury Daily.

High-risers

At the time, when Ms. Ramirez and her family decided to settle in New York for the longterm, their friends saw it as a mistake. However, market prices at the time were astonishingly low.

Ms. Ramirez recalls looking for a four-bedroom home on Fifth Avenue or with a river view and never seeing a price point higher than $500,000. At the time, condominiums were virtually unheard of; co-ops were the only housing option.

Halstead 993 Fifth Avenue listing

By the mid 1980s, however, a real estate boom spurred by co-op conversion changed the market. Building owners began converting buildings from rentals to co-ops, and many clients persuaded to buy for far less than the market value flipped the unit.

The conversion craze bred in consumers an investor mindset, whose mark in the world of New York real estate persists. At the same time, developers realized the potential of condominiums. Small, low-ceiling studios and one-bedroom units with cookie cutter designs were no replacement for the elegant pre-war buildings, but were perfect for renting out.

Shortly after the influx of condos, however, new tax laws made it much harder for anyone to profit on condominiums, and a coinciding recession of the late 80s and early 90s halted New York growth for an especially long period of time thanks to the over-supply.

"Values of 50 percent were lost in apartments and close to 25 to 30 percent in the high-end," Ms. Ramirez said. "There was such a supply of small apartments that I would go into one bedroom apartments that parents would be living in the living room, their child in the bedroom and in the large closet was a crib for the nursery.

View from 151 East 58th Street unit, on sale via Halstead

"It was such a different time," she said. "Even the co-ops at the time would let people rent them out for one lease term just so people could move on with their lives."

"But in the mid 90s, luxury apartments revived the market. The values were so enticing that it started to domino the other way, tumbling from the higher-end apartments down to the smaller ones."

Consequently, a safer and revitalized New York saw an influx of younger buyers who had no memories or worries of the previous recession, and the old-money market of the 70s began to diversify. At the same time, developers learned from mistakes and began to build new condominiums whose design mimicked the pre-war elegance.

An expanded buyer pool split the market, with older money and the wealthy opting for co-ops and authentic pre-war buildings. However, a concern of lack of exclusivity and the potential of neighbors with different lifestyles alienated some wealthy New Yorkers, but the investor mindset of the 80s persisted.

At the time, there were no capital gains and primary home tax benefits helped shelter some income, to a much larger extent than today.

Within a few more years and in the early 2000s, younger buyers turned to new neighborhoods and open floor plans with lots of glass and light became hot new trends and property was sold based on floor plans as experienced developers began working with architects.

As a result, wealth from around the world began to take notice, but the wealthiest in New York also had their interest piqued again, and condominiums were purchased as fourth and fifth residences or to rent out. At the same time, the resilience of New York in the aftermath of the September 11 terrorist attacks positioned the city as a global capital and spurred movement from the suburbs into the city.

West 187th Street townhouse investment property

Through the '00s, supply and demand was so well balanced in New York that it was among the last cities to enter the great recession of 2008 and among the first to emerge. By and large, it was inexperienced and over leveraged developers who did not emerge, but the most experienced developers partnered with renowned architects and are changing the city's skyline.

"We are now in the period of the uber luxury towers," Ms. Ramirez said. "Price points are the exclusive entrance into the club."

The resiliency of New York, both following the September 11 attacks and in the face of global recession, made the city even more attractive to the wealthiest people in the world, not just of the city. Today's buyers are less likely to be the New York elite of the past than to be new money and international buyers the world over.

Home investors

The numbers bear out the narrative. The top sale in 2013 was 42 million; the very next year, it was 100 million. Moreover, the average price of condominiums on the luxury end of the scale has skyrocketed.

The price to purchase New York real estate has never been higher, according to a recent report by CityRealty.

The average sales price of condominiums and co-ops set new records for the second consecutive year, with median prices for each exceeding $1 million. Despite the brief scare of a market slowdown when the Dow Jones dipped in August, New York real estate will continue to have high demand (see story).

7,500 sq. ft condo in Tribeca, on sale through Halstead

Given the investor's mindset so common with New York real estate, small drops in particular segments over small periods of time tend to be blips on the radar rather than indicative of a reversing trend. In addition, stock market volatility and a strengthening dollar paint New York real estate as an especially worthwhile investment opportunity.

As the stock market continues to ebb and flow, foreign money may begin to pour into real estate in expensive, stable markets such as New York.

The Shanghai Stock Exchange and the Dow Jones have both proven volatile and unpredictable in recent months, creating a scare related to slowing growth or even another potential recession. Nonetheless, the perceived safety of real estate and the nature of its long-term investment could provide a solace for high-net-worth consumers worldwide (see story).

The growth of the affluent will only assist the real estate market's growth. While global wealth is concentrated in the United States, buyers far outnumber sellers in Europe and Asia even more than in the U.S., and the affluent tend to be optimistic and confident. The are thus unlikely to be swayed by fluctuations in the stock market and will not be deterred from investments.

"New York is a city that tracks the best and brightest and has proven to be a safe investment opportunity," Ms. Ramirez said. "The super elite are paying astronomical prices to live in exceptional properties and the luxury market has grown so rich that in the past decade a new category has emerged for properties $10 million and more."