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Strong Long-Term Demand For New York City Housing

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Homeowners and members of the residential real estate community have experienced increased anxiety during the past several months as the housing slump has worsened around the nation. As the credit crisis continues to play out, it is unlikely that New York will be entirely immune. Not surprisingly, it appears that demand has slowed somewhat at the same time that more new residential buildings are entering the market. However, New York City's market fundamentals are remarkably strong and demand for housing runs deep.

The city's long-term demand has been incredibly robust during the past decade. In the last five years alone, tens of thousands of new housing units were absorbed by the New York real estate residential marketplace. According to a Manhattan market report by Miller Samuel Real Estate Appraisers, more than 43,000 co-op and condo units were sold between 2002 and 2006. And when housing sales were at a standstill elsewhere in the country, nearly 9,000 Manhattan co-ops and condos were sold in the first three quarters of 2007 according to Condo-sales.com.

Steady demand for housing in New York is rooted in a variety of sources. Unlike the Miami condo market, which experienced enormous demand from investors, New York's market is fueled by a diverse pool of buyers who intend to live in apartments long-term, such as long-time New Yorkers, families choosing an urban lifestyle, empty nesters, and foreign buyers. The current status of the city's housing demand is the opposite of the 1980's, when the cycle of large-scale migration to the suburbs was coming to an end. Quality of life in New York is higher than it has ever been and more people are taking advantage of the city's vast improvements. During the last 20 years, the city's dramatically falling crime rate, its burgeoning international appeal, and its overall prosperity have inspired many to choose an urban way-of-life.

Also, there's already a strong demand for housing, and Mayor Bloomberg's PlaNYC 2030 predicts the city will grow by nearly 900,000 new residents in the next 20 years. This growth, according to the report, is the "equivalent of adding the entire population of Boston and Miami combined to the five boroughs." In fact, the city's population just recently reached an all-time high with 8.25 million residents. Despite the fact that 2005 and 2006 saw the most housing production in the city since 1965, development has still not been able to keep up with an expanding population that has kept vacancy rates close to zero. While PlaNYC already has more than 200,000 units of

affordable housing in the pipeline, with an additional 700,000 units planned between 2010 and 2030, the need for market-rate housing will still be strong.

In addition to the city's continuously increasing quality-of-life, which draws new New Yorkers each year, the corporate attraction of New York City is on an upswing in the long-term cycle. Many of the world's most influential businesses have made long-standing commitments to their present locations. Some of the highest-profile commitments include Bank of America's lease of 1.6 million square feet at One Bryant Park; Goldman Sachs' construction of a 2 million square foot headquarters in Battery Park City; and global law firm Davis Polk & Wardwell's 650,000 square foot lease at 450 Lexington Avenue. As these international powerhouses continue to draw the best and the brightest employees to New York from throughout the world, the demand for housing will follow.

As many parts of Manhattan begin to fulfill their development potential, formerly marginal neighborhoods such as Hudson Yards, the Lower East Side, and Chinatown still have room for growth and additional housing. PlaNYC also discusses the opportunities for development in recently rezoned areas and along the city's underutilized waterfront, where one can already see the trend of development in these sections of Brooklyn and Queens. Decades ago, as industry moved away from the city, factories and plants along the rivers were abandoned and the once bustling areas became vacant eyesores. Today, new waterfront neighborhoods like Long Island City are emerging with additional housing, parks, and riverfront walkways. Following the great success of the Williamsburg/Greenpoint rezoning, land surrounding the Gowanus Canal and the Astoria waterfront is ripe for new housing opportunities and smart, sustainable development. One of the challenges for developers is preserving the character of neighborhoods in conjunction with the city's rapid growth.

The real estate community, buyers, and sellers are currently attempting to process all of the recent changes in the real estate marketplace and are adjusting to these new circumstances. Like they have done during periods of uncertainty in the past, buyers and sellers will ultimately recalibrate their psychology, resetting the market and initiating demand for many years to come. ■

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