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Manhattan Homes Under \$3 Million Never Harder to Buy

By Oshrat Carmiel - Aug 7, 2013

With \$1 million to spend and no need for a mortgage, Laiyan Wong expected to be able to easily buy a two-bedroom apartment on [Manhattan](#)'s Upper West Side. What she didn't anticipate was how much competition she'd have.

Wong viewed more than 10 apartments in two months, gradually increasing her budget to \$1.5 million as it became clear that others were looking for similar properties amid a plummeting supply of homes in her price range.

"I made four bids and was outbid each time," said Wong, a trader at an investment bank, who eventually got a mortgage and paid \$1.6 million for a condo that was about to go under contract to someone else. "You have to be willing to make a decision in a few minutes and overpay the asking price."

Manhattanites with budgets that would buy mansions in most of America are discovering it's tough to find even a two-bedroom apartment in [New York](#) as the inventory of homes shrinks. The number of available units for less than \$3 million -- those generally considered nonluxury -- has plunged by the most on record, creating a shortage that's unlikely to be alleviated any time soon as developers focus on ultra high-end condos that have set price records by wealthy investors.

Listings for nonluxury apartments, encompassing about 90 percent of the Manhattan market, have fallen by more than 36 percent year-over-year in each of the last three quarters, the biggest declines in 12 years of recordkeeping, according to data from New York appraiser [Miller Samuel Inc.](#) By contrast, inventory in the top 10 percent of the market by price fell only 3.9 percent in the second quarter from a year earlier.

'Most Challenging'

"For the bulk of the market, the 90 percent, it's probably the most challenging period for a buyer in the 25-plus years that I've been observing the market," [Jonathan Miller](#), president of Miller Samuel, said in an interview.

In the second quarter, 3,638 units priced at less than \$3 million were listed for sale, the smallest nonluxury inventory in nine years, according to Miller. The absorption rate, or the amount of time it would take to sell all those properties at the current pace of deals, was 3.9 months, the fastest in records dating back to 2004.

In Manhattan, where the median price for a two-bedroom apartment is \$1.35 million and a three-bedroom unit costs \$2.63 million, the nonluxury category encompasses many first-time and move-up buyers, Miller said. Nationally, the [median price](#) for single-family home in June was \$214,200, according to the National Association of Realtors.

Narrowing Gap

Listings for the whole market, from studios to four bedrooms, are falling, Miller said. The costs though to buy a nonluxury apartment are outpacing those of the most expensive properties.

The average price of a nonluxury Manhattan apartment climbed 7.8 percent in the second quarter from a year earlier to \$1 million, according to [Miller Samuel](#). The average price for a unit in the top 10 percent of the market declined 8.4 percent to \$5.25 million.

“Relatively speaking, it’s gotten more expensive to buy a nonluxury property,” Miller said.

The pool of available homes at the lower end of the market is shrinking as owners who bought during [the boom](#) and then saw values plummet wait to list their properties until their equity climbs high enough to justify a sale, according to Miller. New supply isn’t growing fast enough because developers who have revived projects after the credit crisis are almost exclusively building luxury units, he said.

“Everything that’s built has to be considered luxury to succeed,” said Rachel Gilbert Solomon, a principal at Atalanta Advisors LLC, a New York-based firm that helps developers get equity and debt financing for their projects. “Land is trading at a really high price so you have to make it very high-end.”

Development Costs

Developers are paying about \$750 a square foot for development sites, and construction costs push up the price of building new projects to as much as \$1,700 a square foot, Gilbert Solomon estimated. In the last boom, the rate for development sites was \$400 to \$450 a square foot, she said.

At the current prices, builders are counting on selling units for an average of about \$2,400 a square foot to make the returns worth the risk, she said.

“Every project south of 96th Street is assuming sellouts in excess of \$2,000 a square foot, and that really creates a problem” for buyers, said Robert Knakal, chairman of brokerage Massey Knakal Realty Services.

New Condos

A building on West 77th Street that he was planning on marketing for about \$40 million sold last month for \$55.5 million, or about \$725 a square foot, according to Knakal and public records. The buyer, developer Naftali Group, has already gotten calls from people interested in an apartment at the site, which still houses a Hertz parking garage, the firm’s chief executive officer, Miki Naftali, said in an interview.

At 150 Charles Street, a West Village condominium development by the Witkoff Group where apartments are available for as much as \$35 million, a 541-square foot (50-square-meter) studio was last listed for sale at \$1.1 million, according to StreetEasy. The unit, which is in contract, was initially priced at \$850,000 when sales began earlier this year according to documents filed with New York State Attorney General Eric Schneiderman’s office.

At Walker Tower, a former Verizon Communications Inc. building at 18th Street near Seventh Avenue in Chelsea, a 1,730-square foot two-bedroom unit on the ninth floor was listed for \$4.2 million, as of a January price filing.

‘Starved’ Market

Developer Sonny Bazbaz said he foresaw a ‘starved’ market for mid-priced apartments, when he drafted plans for the condo conversion of an Upper West Side property he acquired from a lender in a 2011 bankruptcy sale. Buying the former rental property at 101 West 87th Street for \$48 million – or about \$450 per square foot – Bazbaz saw an opportunity to create a condo project where half of the 62 apartments would be priced for less than \$2 million.

When sales began in December, “the units started flying off the shelf, and we started increasing prices in response to that demand,” said the president of Bazbaz Development LLC.

In new condo developments, there were 539 listings for \$1.5 million or less at the end of June, down from 1,792 in the second quarter of 2008, the pricing peak of the last Manhattan construction boom, according to data compiled by property-listings website [StreetEasy.com](http://www.streeteasy.com).

For buyers with a budget of \$1 million or less, there were 364 newly built units to choose from in the second quarter, compared with 1,102 in 2008.

Boom Cycle

“The people looking to buy now are the people who were waiting for the last boom cycle to burst and then were kind of watching the market and hoping that this might finally be the time,” said Sofia Song, vice president of research for StreetEasy.

The lack of supply is spurring bidding wars that particularly hurt those dependent on a [mortgage](#), according to Jacky Teplitzky, a broker at Douglas Elliman Real Estate. Fast-rising home values mean the appraisals that lenders rely on to finance a deal are always out of date, she said.

Some purchasers are agreeing to complete a deal even if they can't get financing. When she represents sellers, Teplitzky requires buyers who waive a mortgage contingency to prove that they can handle the full cost in cash.

If that apartment doesn't appraise for the full value of the bid, “I have to make absolutely sure that the buyer has enough money in the bank to make up the difference,” she said. “We request full financial disclosure.”

Mortgage Contingency

Wong, the bank trader, was among those who agreed to waive a mortgage contingency in addition to boosting her [price range](#). She began looking in April for a two-bedroom apartment with room for an office, seeking to find a weekday apartment closer to the Upper West Side high school her son will attend in September.

“One million sounded like a good number,” she said of her initial budget. “But when I looked at the apartments, I knew I needed to increase that.”

She arrived the day after an open house to see a co-op on West 104th Street, only to find out from the sales broker that the property had received nine bids, all at or above the \$1.15 million asking price. Wong then hired that broker, Linda Feder of Corcoran Group, for advice on her search.

After four unsuccessful bids, her fifth try was for a three-bedroom condo on West 98th Street near Riverside Park, listed at \$1.4 million. The seller had already accepted an offer and sent a contract to the potential buyer. Wong won the unit by bidding \$1.6 million and pledged to sign a contract within a week and complete the deal in a month. She closed in June.

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