The New York Times

Market's Strong -- but for How Long?

By Dennis Hevesi

Dec. 7, 1997

THE real-estate market tends to run behind the curves of the national economy, economists say, like a whip's curl. And so, with the nation's recovery well into its sixth year, the residential sector of the market snapped out of its doldrums only three years ago, with the New York metropolitan region on the trailing end of the curve.

For two years, the Manhattan co-op and condominium market has been bubbling -- fueled by big Wall Street bonuses, the burgeoning computer-based information industry and the chicken-or-eggish, self-fulfilling potential of bidding wars and price hikes -- all concentrated in a pressure cooker caused, in part, by limited housing production.

As economists and real-estate specialists predicted, the Manhattan market has since boiled over a bit, so that real estate activity in the city's other boroughs and its suburbs -- driven also by low and stable interest rates, low inflation and increasing employment -- has been simmering for at least the last year.

''The momentum is strong,'' said James Hughes, dean of the School of Planning and Public Policy at Rutgers University, ''so we're not going to fall off a cliff, unless there's a major external shock.''

With the nation's economic variables apparently propitious and certain elements specific to the region (particularly New York's position in the global information revolution) strengthening, economists have begun to debate how sustainable the current rise in the region's residential market may be. But, at least for the near future, they say -- and none would be more definitive than that -- the signs seem positive.

Where there was only a hole in the ground 18 months ago, a 42-story co-op tower now looms over the western shore of Queens. Coupled with ongoing affordable housing projects, mortgage-assistance programs have helped revitalize whole blocks of otherwise blighted neighborhoods in the boroughs outside of Manhattan, so that even a few stretches of the South Bronx now seem like suburban tracts. And, after working their way out from under the burden left by, at best, unreliable sponsors during the dog days of the late 80's and early 90's, some co-ops in Queens and Brooklyn have refinanced their underlying mortgages and begun to sell apartments -- at increasing prices.

''We are selling co-ops in Forest Hills,'' said **Ed Gitlin**, a broker with Benjamin Realty, ''and the average price of a one-bedroom that was $35,000 a year ago, right now it's ranging from $50,000 and up.''

''In some buildings that have become more financially stable, prices have risen 30 percent just in the past year,'' Mr. Gitlin said.

''Is it rational? No.''

Sales have also been relatively brisk and prices have inched upward through much of the suburban ring, although there remain stalled spots, particularly in and around some of the region's small, still-struggling cities, among them Paterson, N.J., and Hartford, Conn.

Home building is booming in certain areas, particularly if they are close to Manhattan or other major commercial areas. In Westchester County, for example, building permits are up 54 percent over 1996, while in Connecticut they are up 24 percent.

And less quantifiable, yet reflective of the mood of the market, there has even been a sprinkling of reports of packed open houses and bidding wars in the suburbs.

Plunging into the vicissitudes of that percolating market, Robert and Carolyn Matzelle of Ridgefield, Conn. -- he an accountant, she a teacher -- both bought and sold homes, in just three weeks.

''We're in the process of closing on a house in Newtown, southeast of Danbury,'' Mr. Matzelle said -- a four-bedroom colonial on 2.4 acres that, eventually, went for $326,000.

''We thought we had a confirmed sale at $317,000,'' Mr. Matzelle said. ''We had a binder.'' But, apparently, a binder means ''nothing,'' he said, ''not unless you have a signed contract.''

Two other couples made bids after the binder was signed. ''We had to come back with our best offer, $326-even,'' Mr. Matzelle said, to win the war.

To ''cinch the deal'' on the sale of their four-bedroom, raised ranch on one acre in Ridgefield, the Matzelles agreed to hold an open house. ''We had 20 people coming through; what a scene!'' Mr. Matzelle said.

The winning bid: $322,500.

''So, we're actually getting a house that's larger than what we're currently in, newer than what we're currently in, more property than what we're currently on, for the same money,'' Mr. Matzelle said.

For all of Fairfield County, which includes the communities where the Matzelles bought and sold, the median sales price stood at $207,000 at the end of the third quarter of this year, according to data compiled by the Commercial Record, a business weekly -- a 13.7 percent increase over the $182,000 median price a year earlier.

And the number of sales for the county -- which includes more modest communities like Monroe and Shelton, as well as wealthy areas like Greenwich and Darien -- stood at 13,219 during the first nine months of this year, up 8.5 percent over the 12,189 sales during the corresponding period last year.

''Our problem here is that inventory is very low,'' said Randi Hutton, a broker with Weichert Realtors in Westport and Weston, Conn. ''So we've had five situations just in the last week involving multiple bids.''

"It's a good problem," Ms. Hutton conceded.

In Nassau, Suffolk and Queens, according to the Multiple Listing Service of Long Island, which includes all three counties, the median price for a single-family home increased from $157,500 in January to $167,000 at the end of September, a jump of 6.03 percent. And sales volume in the three counties during the first three quarters of this year has kept pace with last year.

The pattern was similar west of the Hudson, where the New Jersey Association of Realtors divides the state into three sections. In northern New Jersey, the median sales price stood at $205,000 at the end of the third quarter, up 2 percent from $201,000 at the start of the year, according to the association. A year earlier, the median price was $188,100. At the same time, sales volume in northern New Jersey was well ahead of last year. In 1996, 58,400 homes were sold, an average of 14,600 in each quarter. In the first three quarters of this year, 46,750 homes have been sold, an average of 15,883 in each quarter.

"There's two main ingredients fueling the real estate economy," said Michael Ford, president of the New Jersey realtors group. "The first one, obviously, is the very attractive interest rate, and the second is the first-time buyer."

MORTGAGE rates in the region, said Keith Gumbinger, vice president of HSH Associates, a mortgage research company, "are hovering at the lowest point in 19 months -- 7.36 percent for a 30-year, fixed." And they have been "extremely stable this year," ranging from 8.3 percent in April for a 30-year, fixed rate, to the current low.

"We are just a half percentage point above the 28-year low that we reached back in October 1993 -- 6.83 percent," Mr. Gumbinger said, pointing out that in October 1981 the 30-year, fixed rate stood at a celestial 18.31 percent.

Among the first-time buyers that Mr. Ford spoke of were Dina and Mario Sosa who -- along with their daughters, Nicole, 4, and Jenna, 2, as well as Grandma Hilda and Grandpa Manuel Sosa -- were deep in the throes of packing last week.

"It feels good, except there's so much to be done," said Mrs. Sosa, a pharmacy supervisor in Woodbridge, N.J. Mr. Sosa is an auto mechanic.

The Sosas moved from Brooklyn a decade ago and were renting a house in Rahway. "You know what it is?" Mrs. Sosa said. "You put so much into a house and it's not yours, so you finally want something that's yours."

The new house, a four-bedroom split level that is only a few blocks away in Rahway, cost $180,000. The entire purchase process lasted a month.

"I thought it was going to be a lot harder," Mrs. Sosa said. "You hear the horror stories: the people change their mind, the mortgage doesn't go through. But we were the first to look and he took our offer."

A problem has arisen, with the children. "They want to paint their room red, so I'm arguing with them to make it a nice pink," Mrs. Sosa said. "And they want to know if the dog is coming. 'Yes, we're taking Taz.' "

In the current heated market, upscale Manhattan has been particularly torrid. By way of illustration, statistics compiled by the Charles H. Greenthal Residential Sales Corporation indicate that the median price for a two-bedroom apartment in Manhattan stood at $521,000 in September, up 20.1 percent from $433,616 in September 1996. "People are not leaving New York," said Joyce West, executive vice president of Greenthal, "they're buying up. And so many areas have been reborn: I remember in the 70's I couldn't get people to go up above 86th Street."

Newcomers, too, are fueling the Manhattan market.

"What the mud of the Nile is for Egypt each year, the flow of the best and the brightest from the best or, at least, the most expensive schools is to New York," said George Sternlieb, the retired founder of the urban policy institute at Rutgers. "Suddenly, with glamour, we're pulling from all over."

A barometer of the pull to Manhattan for young newcomers was offered by a 34 percent increase in studio apartment sales -- from 462 in the first 11 months of 1996 to 619 in the corresponding period this year -- reported by the Corcoran Group.

''The studio segment is the first to go down and the last to go up,'' said Barbara Corcoran, the company's founder. ''So, I read a lot into that number: that this market is fully recovered. The rich always do well, but studio owners usually don't. And these days the underdog is moving at a very fast pace.''

John Graham, 34, an investment banker from Virginia, bought a studio in Manhattan during the spring. ''Technically, it's not a studio,'' Mr. Graham insisted. ''The bedroom has a door that closes it off. But it's very small, like living on a sailboat.''

Perhaps the best description for an apartment situated above the elevator shaft and below the water tower of a 20-story building on West End Avenue would be: penthouse studio.

''I finally found a place that's perfection, on top of the world,'' Mr. Graham said. ''However many millions of people there are in New York, I have no neighbors. I have windows all the way around. I've got a fireplace, hardwood floors, and it has a deck outside, too.''

The price for high-rise, studio-scale perfection: ''In the low-$300's.''

In the estimation of Mr. Ford, the New Jersey realtors association president, the current upward trend ''started back in '96, and this whole year has seen a good, sustained market, from Cape May to Fort Lee.''

''This market,'' Mr. Ford added, with a broker's ingrained optimism, ''I would love to say it looks like it's never going to end.''

Fat chance, most economists say. But not all.

"We had a dreadful crash shortly after '87," Dr. Sternlieb pointed out, "and while other parts of the country recovered, the Northeast in general, but New York City in particular, was the caboose on the national recovery train.

"Now, the definition of a real estate developer is essentially a speculator without a memory, because, generally speaking, the problem of the real estate field is that by the time you have secured your financing, assembled your land and are digging a hole in the ground, the economy is beginning to peak and crumble. You're always behind the curve."

YET, there is no arguing with the fact that the nation's economic recovery is 6 1/2 years old -- two years short of the longest this century, from 1961 to 1969 -- while the average postwar expansion has lasted only four years. "So there is substantial national economic momentum," Dr. Hughes at Rutgers said.

The region's recovery is about 5 1/2 years long. "Not as long as the nation but, nonetheless, a very long expansion," Dr. Hughes said. And, over the last three years, the real estate market has joined the parade.

Sales of existing single-family homes across the country hit an all-time high of 4.08 million last year, according to the National Association of Realtors, and if the pace continues this year, a new record will be set.

According to "U.S. Housing Market Conditions," a report published by the Department of Housing and Urban Development last month, the median price of existing single-family homes throughout the nation in the third quarter of this year was $126,500, 5 percent above the third quarter of 1996.

And helping to spur the metropolitan area's real estate recovery is, of course, job growth. John Weiting, regional commissioner for the Federal Bureau of Labor Statistics, said 1997 "is shaping up as a fairly strong year for employment in the region." The tristate area added 134,000 jobs in the year ended in October, Commissioner Weiting said, topping gains of 114,000 in the prior 12 months, and only 43,000 in the year that ended in October 1995.

Job growth, low inflation, low and stable mortgage rates, all combined with New York's status as a center for the global information revolution and a mecca for immigrants, bode well for the future of the region's real estate market, economists say.

''One caveat,'' said Arthur Margon, director of the New York University Real Estate Institute: ''The scenario is based on all those factors continuing or, at least, avoiding a serious contraction. And the only sign of trouble is that outside the United States you have these sort of air pockets in Asia.''

In the glow of extended expansion, some observers have, in recent months, touted a ''new economic paradigm,'' premised on the contention that integration of the world's markets because of computer technology has increased exports and productivity to such a degree that prices, wages, inflation and interest rates will all remain moderate for the foreseeable future. And, yet, at the same time, increased productivity has generated job growth.

All ultimately good for the real estate market.

JOHN TUCCILLO, consulting economist with the National Association of Realtors, does not quite hold to the theory. ''All that doesn't mean we are not going to have recessions or that the business cycle is dead,'' Dr. Tuccillo said, ''but it does mean that the economy is generally biased toward growth.''

One other factor contributes to Dr. Tuccillo's optimism. ''Most baby boomers are now 40 years old,'' he said. ''That means they are entering a decade of high productivity, high earning, high savings and high spending. And, as far as housing is concerned, these folks will be buying up.

''So I think we will be seeing a very strong demand for housing over the next 10 years.''

But Susan Wachter, a professor of real estate economics at the University of Pennsylvania's Wharton School of Business, is fatalistic.

''As a business cycle gets old we are vulnerable to negative surprises,'' she said. ''It seems as though we are immune because we don't see them on the horizon, but they are out there. And there will be a downturn.''

Somewhere in the middle is Dr. Hughes, who wondered whether a shock must come or, perhaps, the regional real estate market might experience a prudent, sustainable pattern akin to regular respiration.

''You have to be a bit cautious, just because of the length of the expansion, that the law of averages is going to catch up with us,'' he said. ''But there aren't that many imbalances built up, like in the 80's, when we had a huge run-up in prices, undisciplined corporate expansion, great overbuilding in the office sector, undisciplined lending in all types of ventures.''

Imbalances in the current market include the potential for overvaluing in the stock market and heavy levels of consumer debt, Dr. Hughes said. ''But if they don't cause a problem and the overall economy continues doing well into '99, we could be in striking distance of real estate's equivalent of Joe DiMaggio's 56-game hitting streak.''