REAL ESTATE'S RENAISSANCE

BY JONATHAN MILLER

ONE OF THE primary characteristics of the U.S. coastal housing markets, after the dust settled from the collapse of Lehman Brothers, has been a sustained period of high-end market strength. Trophy properties are seeing new demand.

The sudden end to an era of reckless bank underwriting and subsequent entry into a period of fiscal austerity was expected to disproportionately crush the luxury housing market. Easy access to credit allowed for many consumers to live beyond their means.

The onset of the credit crunch led to the overnight evaporation of the secondary market for jumbo mortgages, too large to be purchased by ailing Fannie Mae and Freddie Mac. While the federal government focused on the former GSEs, little attention was given to improving access to mortgage financing for high-end housing. Banks now have to hold jumbo mortgages in their own portfolios rather than offload the risk to investors hungry for bigger returns. The much tougher jumbo mortgage financing requirements were expected to bring a collapse of high-end housing prices and grind sales activity to a halt. But that isn't how it played out. The price spread between high-end and starter homes has expanded over the past several years despite irrational mortgage underwriting standards for jumbo mortgages. In fact, a remarkable number of home purchases at the high end of the market have been paid with cash rather than obtaining mortgage financing at commercial banks, thereby bypassing the lending industry's legacy of poor lending decisions in the prior decade. The global accumulation of wealth during the global economic boom enabled many investors after its end to seek out luxury housing in the U.S., helping coastal markets outperform others.

The weakness of the U.S. dollar against other foreign currencies, specifically in Europe, South America, and Asia has brought investors to U.S. soil in droves. Initially, this was viewed as a currency play where wealthy foreign investors were simply taking advantage of the sharp discount for U.S. housing. While the favorable exchange rates may have tipped the balance towards the acquisition of U.S. assets like housing because of the perceived discount, investors were also moving their assets into a relatively more politically and economically stable environment.

Will the use of cash in housing purchases continue? It seems likely, perhaps out of necessity. Rational jumbo mortgage underwriting standards and the creation of stable secondary market for jumbo markets is not expected to return for years. Once those problems are eventually resolved, the widening gap between luxury housing and the balance of the market could very well widen further.

Quest rounded up a group of experts who represent the very best of real estate in New York City and beyond, who in their own words, comment about this bold new world. ◆

NIKKI FIELD

Senior Vice President, Associate Broker, Sotheby's International Realty / 212.606.7669 / nikkifield.com

THE DOW is rising, the European Central Bank is moving forward, and interest rates are on an upward trend. All three forces signal one thing for Manhattan residential real estate: stability, stability, stability!

These key economic events are major decision-making factors for our domestic buyers and sellers. I am convinced that they are a harbinger of a renewed market confidence, currently translating into increased sales, especially at the top end of the market.

Today, the main factor influencing Manhattan residential real estate and fueling our sales surge is the international buyer. Foreigners are not as influenced by the Dow, or even rising interest rates, as we are. Rather, they are keenly focused on the dollar's value on the world stage, recognizing that the U.S. is a proven safe investment haven. These buyers will become increasingly important for us as two of our senators are currently preparing to introduce a bipartisan bill that would give residence visas to foreigners who spend at least $500,000 on residential real estate in the United States.

Worth noting—I have secured deals with three international billionaire buyers this quarter for $250 million in one building alone. These mega-buys are from floorplans as the building is still under construction. New development has roared back to life from its recessionary slumber and there appears to be no lack of eager buyers.

995 Fifth Avenue, or "The Residence," in New York, New York. List price: $30,000,000.

The climate is good news for buyers and sellers, alike. I see it at the Field Team every day. Sales are up and inventory is decreasing. Current conditions are encouraging for our local buyers and sellers and the international investors are giving us the added fuel to keep our developers building. The economy is growing sufficiently, suggesting that Manhattan luxury real estate has proven its resiliency yet again. I look forward to representing our clients in the new market stability and delivering more record-breaking sales. ◆