

Real Estate: Boom or Bust?

The news media has been covering numerous stories of foreign buyers picking up condos at record prices in New York City. Hedge fund billionaire Kenneth Griffin's purchase of a \$238 million apartment, which closed in January, is an example. Is this a sign that real estate is continuing its upward rise and that there is not much of a slowdown to be expected? Actually, the market is much softer than what conventional wisdom might tell anyone observing headline-grabbing sales reports.

According to Jonathan Miller, Principal at the appraisal firm Miller Samuel and one of the most well-known experts on real estate trends in New York, the market in New York City can be viewed like a sheet of ice melting in the sun: It is softest at the top and the further down the price pyramid one goes, the firmer the market fundamentals. For instance, prices for super luxury units have come down by roughly 25 percent over the last 18 months or so. More moderately priced units, let's say in the \$500,000 to \$1 million range, pricing has been holding up firmly and not much, if any, deterioration is evident. Chart 1 illustrates this trend by visualizing the average number of months units are on the market in different price categories.



Miller reports on various metrics that describe these price trends and one staggering statistic is that at the current rate of sales, existing inventories for condos may last for more than 9 years. That estimate is outside the realm of historical trends but it may also be a function of declining sales. In fact, conventional

THE WATCHLIST

Economic Variables	Current	One Year Trend
UNITED STATES		
Real GDP [Annual Rate]	Q12019	3.1%
Unemployment Rate	May-19	3.6%
Consumer Price Index [Annual]	May-19	1.8%
Gasoline Price [Regular]	May-19	\$2.86
PORT AUTHORITY REGION		
Regional Employment [NY MSA]	May-19	9,947
Consumer Price Index [Annual]	May-19	1.5%
Port District Exports [\$Bill]	Apr-19	\$11.06
Port District Imports [\$Bill]	Apr-19	\$24.18
Case-Shiller Home Price Index	Apr-19	1.9%
Commercial Real Estate Asking Rent		
Midtown	Q12019	\$82.04
Downtown	Q12019	\$67.74

wisdom when it comes to real estate cycles tells us that once sales slow, inventories grow, and prices start to deteriorate. But according to Miller, the price depreciation can take more than a year and should not be confused with the bursting of a real estate bubble as during the 2008/2009 financial crisis. Additionally, only 7 percent of current closings are in newly constructed units whereas this number was roughly 50 percent just before the financial crisis. In the past several years, the pipeline of new inventory that has sold has slowed.

There are several different factors that play a role in New York real estate today. According to price and exchange rate analyses provided by Miller, the discount at which foreign buyers are able to buy condos and apartments has declined from roughly 30 percent in 2015 to 10 percent today. In other words, New York real estate is less of a bargain today. In addition, the 2017 tax law changes, in particular the limit to the deductibility of state and local taxes (SALT) to \$10,000, has severely impacted buyers in the luxury market. Anecdotally, there may be a significant number of individuals that are seeking out alternative residential and investment locations in South Florida and parts of the country that are less under pressure from the SALT deductibility limits.

Lastly, the recent adoption of more stringent rent control regulations in New York City will invariably affect the condo and apartment market. Economic theory suggests that price caps in a market will create shortages and deteriorate the quality of the product being exchanged. The latter in particular is a problem that may continue to materialize as especially small property owners have less capacity to absorb some of these increased regulatory costs. Miller also predicts the new rent laws will encourage rental buildings to convert to co-ops.

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MONTHLY ECONOMIC INDICATORS

Planning and Regional Development Department

THE PORT AUTHORITY OF NY & NJ

June 2019

AVIATION	Apr '19	YTD	Apr '19/'18	YTD '19/'18	PORT	Apr '19	YTD	Apr '19/'18	YTD '19/'18
Revenue Passengers (000's)	11,879.3	42,993.1	3.1%	4.5%	Port Trade				
John F. Kennedy International Airport (JFK)	5,245.6	19,146.7	4.1%	6.0%	Container Imports (TEUs)	297,825	1,203,674	9.1%	5.1%
LaGuardia Airport (LGA)	2,647.3	9,350.6	4.4%	4.2%	Container Exports (TEUs)	131,311	486,540	-2.6%	-2.0%
Newark Liberty International Airport (EWR)	3,939.5	14,325.6	1.1%	2.5%	Containers lifted on/off Express Rail	56,911	220,044	9.9%	8.6%
Stewart International Airport (SWF)	46.9	170.3	-7.1%	-6.0%	TUNNELS, BRIDGES & TERMINALS	Apr '19	YTD	Apr '19/'18	YTD '19/'18
Revenue Freight (Short Tons)	177,010	715,854	-4.5%	-1.5%	Eastbound Vehicle Volumes (000's)	10,100	38,015	1.6%	2.3%
Domestic	68,725	274,508	8.0%	5.8%	George Washington Bridge	4,279	16,120	0.1%	1.2%
International	108,285	441,346	-11.0%	-5.5%	Lincoln Tunnel	1,567	5,947	-2.4%	-1.4%
Flights	123,485	472,545	0.0%	2.0%	Holland Tunnel	1,300	4,905	6.7%	5.4%
Domestic Air Carrier	78,428	304,280	-0.6%	2.7%	Bayonne Bridge	220	863	-1.6%	-0.1%
International Air Carrier	24,475	97,279	-2.8%	3.1%	Goethals Bridge	1,493	5,496	10.8%	11.3%
General Aviation	20,582	70,986	6.0%	-3.0%	Outerbridge Crossing	1,241	4,684	-2.7%	-0.9%
Paid Parked Cars	532,393	1,992,549	-3.5%	-3.2%	Eastbound Volumes by Vehicle Type (000's)				
Revenue AirTrain Passengers	1,595,859	5,755,148	-9.1%	-7.2%	Autos	9,211	34,659	1.4%	2.4%
					Trucks	636	2,405	4.3%	2.2%
					Buses	252	949	1.2%	0.7%
FERRY OPERATIONS	Apr '19	YTD	Apr '19/'18	YTD '19/'18	U.S. TRANSPORT. SERVICES INDEX	Apr '19	Mar '19	Change	
Passengers (000's)					(Prelim., Seasonally Adj., 2000=100)				
New Jersey Ferries	941.7	3,290.6	23.7%	18.9%	TSI - Combined Index	136.8	135.7	0.8%	
					TSI - Freight	138.4	136.4	1.5%	
					TSI - Passenger	133.4	134.2	-0.6%	
PATH	Apr '19	YTD	Apr '19/'18	YTD '19/'18					
Passengers (000's)	7,063.0	26,386.0	2.3%	0.4%					
Average Weekday	285.9	279.6	0.6%	2.2%					
Average Saturday	113.3	99.9	-10.8%	-11.1%					
Average Sunday	79.8	70.3	-6.7%	-10.9%					

TRANSPORTATION FOCUS

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Therefore, while the laws may not incentivize affordable rentals, they might just increase the number of moderately priced for-sale units, taking some of the edge off rising prices in the moderate sales market. Affordability, while a desirable policy objective, is always difficult to achieve especially when it comes to housing and this might be another case of policy changes that come with significant distributional effects.

So what does this all mean for the market overall? New York real estate may see a further erosion and reversion towards a mean that is characterized by less price and inventory growth. Jonathan Miller describes the main factor governing the market these days in the following way: "Uncertainty of buyers, investors and property owners!" And with federal economic policy also being highly volatile and disruptive over the last two years, it is unlikely that anything about this perception will change in the short term.



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