

2008 Manhattan Market Outlook

by *Dammy Sedjati*

Manhattan Remains Investors' Favorite

Despite the softening economy and unhealthy capital market, investors remain confident with Manhattan real estate. 2007 fourth quarter average residential apartment price rose to \$1,453,141.00, an increase of 19% from the previous quarter's price of \$1,171,322.00, thus creating a record in Manhattan residential real estate. The 2007 Manhattan commercial building sales also reached a record high of \$50.26 billion by November, compared to the 2006 sales of \$42.64 billion. Though office vacancies and apartment inventories in the city are showing signs of increase due to the significant lay-offs in the financial and banking sector, they are still smaller compare to other top Metropolitan Statistical Areas (MSA).

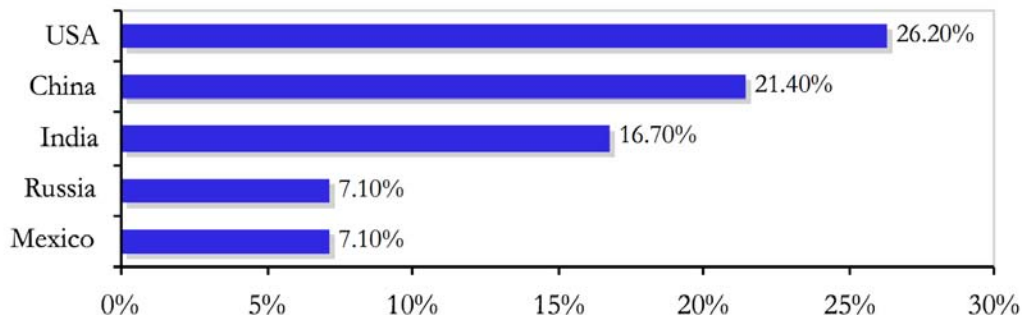
Foreign capital will continue to fuel Manhattan real estate due to the weak US currency. The prestige of owning a Manhattan property can turn foreigners to key players in 2008. The fact that the US

economy is cooling off and a recession may be inevitable may create a global constraint on the real estate market for anyone including foreigners. Yet, with both the slump of the housing price and the dollar, Manhattan property prices have become more accessible than ever, especially compared to prices of properties in major international cities such as London, Tokyo or Paris

According to a report released by the Association of Foreign Investors in Real Estate (AFIRE) on January 2008, New York City is ranked number one on the top five global cities for foreign investor's real estate dollar. The association also concluded that the US ranks first for countries offering the best opportunity for capital appreciation and most stable & secure countries for real estate investments.

All the above-referenced factors coupled with the economic stimulus act of 2008 that increases the conforming loan limits should create a good momentum for Manhattan real estate.

Top 5 Countries Capital Appreciation



Economy

◆ The 2007 Fourth quarter GDP decrease from 4.9% to 0.6%, coupled with weak January employment number and a dip in the ISM non-manufacturing index of 41.9% have caused a recession to be unavoidable.

◆ The NYC labor market weakened in late 2007 for the first time since 2003. Layoffs will continue into the 2008 with the financial and banking sector getting the biggest hit due to the sub-prime crisis. The job loss is estimated to be 8,000-10,000. The bulk of these announcements are yet to be published by the Department of Labor. In fact, finance employment was increasing through September.

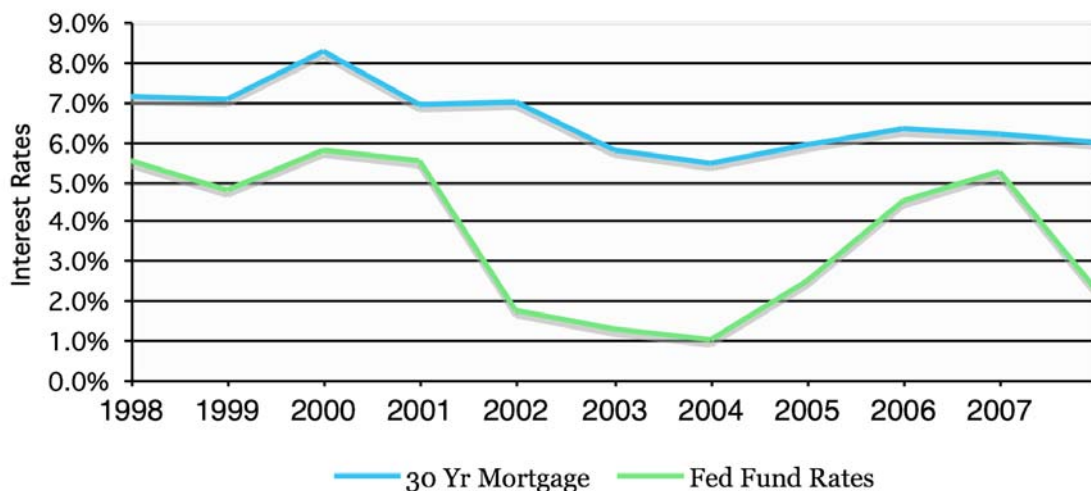
◆ 2008 NYC number of employment is forecasted to hit 3,725,000, a change of .01% from 2007 number of 3,719,000. CPI will be up 2.9% to 233.9 compared to 2007, which conclude although bad news are glooming, the City is still doing better than other states.

Capital Markets

◆ Third quarter of 2007 marked the largest loss in Wall Street firms. As a result of the ever-increasing defaults in the mortgage market, lenders have tightened their lending standards, making it harder for people to qualify for a loan.

◆ The write-downs and losses have forced banks to inject fresh capital from a variety of sovereign wealth funds. The January 2008 edition of *"The Economist"* reported that since the sub-prime crisis emerged, international funds have poured more than \$69 billion into recapitalization of major investment banks.

◆ In a move to inhibit recession, The Fed has lowered the Fed Funds target in January by 125 basis point. There is evidence that these measures have helped loosening the grip of the credit squeeze. We assume the Fed will continue to lower interest rates down to 2% in order to stabilize the economy.



Housing

◆ The Case-Shiller data indicated that home prices in the NY MSA (Metropolitan Statistical Areas), fell 6.5% since the peak of June 2006, lower compared to the 19% decline seen in San Diego. The data shows a correlation between the falling prices and slowing of new construction permits.

◆ The average residential apartment prices are up 19% compared to the previous year, attributed to the luxury condo and co-op markets. Despite lay-offs and negative news in the capital market, prices of high-end properties continue to soar. This is attributed by foreign buyers looking to invest with cheap dollar.

◆ Office vacancies and apartment inventories are showing signs of acceleration due to the significant layoff in the financial and banking sector.

Rentals

◆ Due the abundance of “short-term” residents coming to NYC, rental property will still be in high demand. Vacancy rate will remain to be around 1%-2%.

◆ On average, a 1-bedroom full serviced apartment will go for \$3,500 in the winter and increase to \$3,800 in the summer. This is normal and will continue for 2008. Though stabilized apartments are allowed to increase 3% per year, due to homeowners who lost their homes and those wanting to see more depreciation in home prices, the increase will be higher, topping 15%.

◆ Asking office lease price in 2008 is forecasted to advance by 8% to \$57.51/sq ft; asking lease price climbed 16.5% last year. Average retail rents will increase to 4.9% to \$71.53/sq ft.

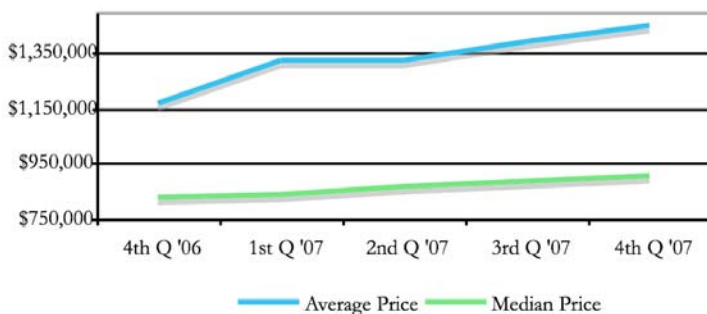
Construction

◆ High construction cost was the biggest issue for homebuilder last year. This year, it’s the financing issue. Tightened credit market has made it harder for homebuilders to obtain construction financing. Therefore, unless a building is currently underway, it’s doubtful that it will even break ground.

◆ Residential homebuilders delivered 3,600 units in New York all five boroughs for 2007, although it was forecasted to slow to 2,800 in 2008. In the commercial arena, we saw a 3.4 million square feet of office space added in the entire city. However the number will most likely fall to 3 million square feet this year.

◆ Developers will most likely change their plan from office conversions into rental buildings, due to massive job loss. It is a good news to tame the high increase in residential rental rates

Residential Market Appreciation



Commercial Market Sales Volumes

