

The inflation situation

Fed actions raise fears, spur NYC real estate purchases, brokers say

By CANDACE TAYLOR

Inflation fears are spurring Manhattan property purchases, real estate brokers say. The rise of currencies in Asia, Europe and Australia, coupled with unrest in the Middle East and a second round of federal government intervention domestically, is prompting both American and international buyers to dive into the Manhattan real estate market.

"We are seeing decisions being made in conjunction with protection from inflation more than at any other time [in recent years]," said Julia Hoagland, a senior vice president at Brown Harris Stevens.

Real estate has been traditionally seen as a hedge against inflation, and these days, "it comes up a lot in conversation," said Hoagland, a former Wall Streeter with a number of clients who work in finance.

She noted that some savvy investors are "trying to redeploy monetary assets that are not earning a great rate of return right now and are potentially in danger of losing value as we go into an inflationary cycle."

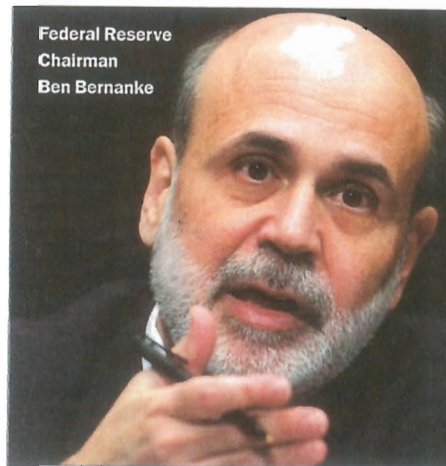
In November, Federal Reserve Chairman Ben Bernanke announced a second round of "quantitative easing" (also known as QE2), which involves a plan to purchase large amounts of Treasury bonds in a bid to support the floundering economy.

Some critics have warned that the move is akin to "printing money," and will lead to inflation in the U.S., by driving up the cost of commodities and depressing the value

of the dollar.

Meanwhile, some worry that inflation will spread to the United States from overseas. China, India and Australia have recently tightened their monetary policies in a bid to curb inflation, as the global economy recovers from a punishing recession.

"The U.S. so far has not been too inflationary, but around the world inflation is picking up, so people in a lot of different sec-



tors are trying to figure out how best to manage for the future," Hoagland said.

Purchasing real estate is often viewed as a way to protect assets by diminishing the impact of inflation over time, explained Barbara Byrne Denham, chief economist at Eastern Consolidated.

As buyers pay back fixed-rate mortgages over time, they are using less-valuable dollars than those they initially borrowed. For

example, a homeowner who started making \$1,000 monthly mortgage payments in 1970 would find it far less onerous to pay that bill in today's dollars.

Since the amount of housing inventory here is finite, "Manhattan to an even greater extent is seen as a value protector," said Hoagland.

In the meantime, rents tend to rise during inflationary periods, so homebuyers and

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purchasers of multifamily apartment buildings benefit.

"You're buying something for a fixed price, as opposed to renting, where it's going to go up every year," Denham said.

Buyers looking to purchase real estate primarily as an investment are particularly focused on inflation, according to Erika Associates' Gea Erika, who said around 60 percent of his clients are investors, many of

them sophisticated real estate professionals from the U.S. and other countries.

"Investors are the ones that are looking at all the economic indicators and trying to make a play off that," Erika said. "Everyone's looking at inflation."

One client recently bought a one-bedroom apartment in Superior Ink as an investment property, Erika said. Another bought one apartment in New York and one in Los Angeles to be more diversified.

Investors are also taking into consideration the price of gold, another asset viewed as a safe haven against inflation. Many investors buy the precious metal when they sense instability in the stock market, and the recent unrest in the Middle East rallied gold prices. Late last month, gold had topped \$1,400 an ounce on the Comex division of the New York Mercantile Exchange, after rallying 26 percent over the past year.

Meanwhile, home prices are still down from their 2008 peak, so investors see them as having "relatively better value" than gold, Hoagland said.

If inflation does come to the U.S., it could also have negative consequences for real estate because the Fed will likely raise interest rates to combat it. That, in turn, could ultimately slow estate sales.

"On the good side, rents would go up, but the bad side is that interest rates would go up, so the sales market would have a harder time," Byrne Denham said. **TRD**