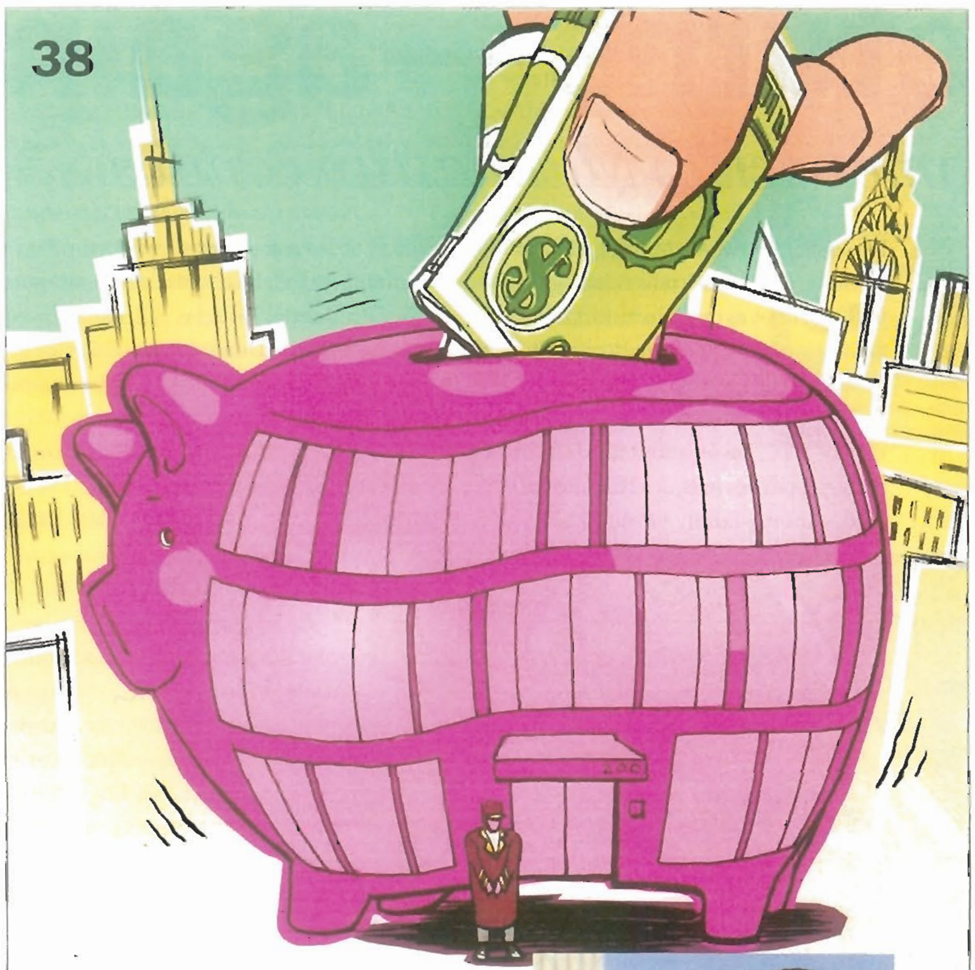
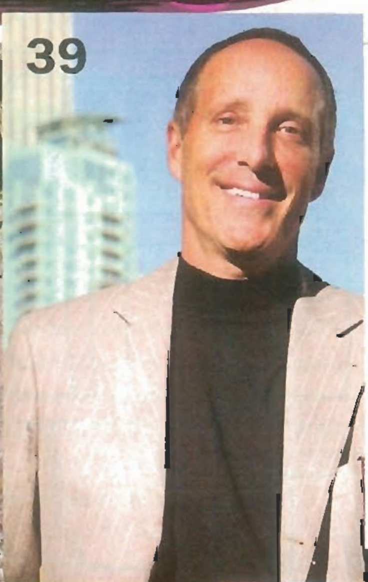
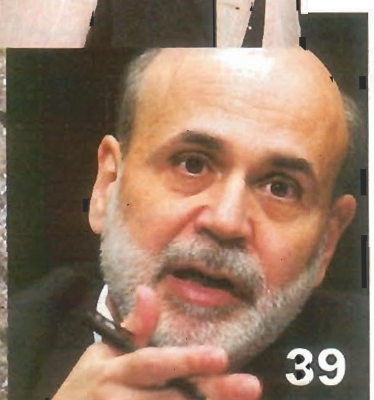






They're back

A look at NY's new investors, the last bastion of undervalued nabes, and inflation's role in today's purchases

Investors have long viewed prime Manhattan residential real estate as the equivalent of a blue-chip stock: expensive, but virtually guaranteed to appreciate over time. That is, until the 2008 Lehman Brothers crash sent prices plummeting, turning the conventional wisdom on its head. After Lehman, foreclosures appeared in investor-owned apartments all over Manhattan as the chasm between monthly costs and rental income widened. Buying an investment property in Manhattan suddenly seemed like a terrible idea, and all but a few daring small investors had since avoided Manhattan real estate. Instead, the city's residential sales have been dominated by buyers looking for a home.

Surprisingly, however, brokers say that is now changing.

While investors still only make up a small share of today's residential property hunters, they are now venturing back into the market, lured by today's favorable buying conditions. For starters, prices have stopped falling, meaning investors can snatch up properties for lower amounts than they could a few years ago without fearing that their new asset will immediately lose value. At the same time, rents have stabilized, and concessions — like a month or two of free rent — are disappearing. Plus, interest rates are still low.

The resurgence of interest in real estate investing is part of a nationwide phenomenon, experts said. Despite the housing debacle of the last few years, many Americans ironically view real estate — especially income-producing properties — as a safer alternative to the volatile stock market.

But this time, their investment strategy is different.

With prices shooting upward during the boom, many investors sought to quickly "flip" Manhattan properties for huge profits. Now, buyers want stable, income-producing investment properties in established neighborhoods like the West Village and the Upper East Side, rather than making speculative bets on up-and-coming neighborhoods. To be extra-cautious, many are purchasing new condo units from developers with tenants already in place.

For those investors willing to take a chance on up-and-coming areas, *The Real Deal* also looked at areas in Manhattan where property values are likely to appreciate in the coming years.

In addition, some savvy investors are using real estate purchases as a hedge against future inflation. With inflation already occurring in many countries, there are worries that it will soon spread to the United States, perhaps prompted by the government's recent economy-stimulating interventions.

By Candace Taylor

ALL STORIES BY CANDACE TAYLOR

SMALL INVESTORS

Banking on returns—again

After two years, investors come back to Manhattan condos

BY CANDACE TAYLOR

In the mid-2000s, Manhattan real estate prices roared upward, luring a plethora of small investors aiming to double or triple their money in a few short years. When prices fell after the financial crisis, however, those buyers largely vanished from the market.

Now, after two years of sitting on the sidelines, would-be investors are showing a renewed interest in Manhattan condos. Industry experts attribute their reentry to several factors: Prices have stabilized while rents are ticking up, mortgages are easier to obtain, and interest rates are low.

"Investors are more confident that the housing market is reaching a bottom," noted Ryan Hinricher, founder of Investor Nation, an investment property fund and sales company. "They are willing to take risks they weren't one to two years ago."

But today's investors — especially first-timers — generally aren't interested in quickly "flipping" apartments, as so many did during the boom. More cautious than their predecessors, they view real estate as a longer-term asset which they can rent out to produce income, and hopefully sell for profit down the road. To reduce risk, many are purchasing condo units that developers have already rented out, so the new owners don't have to worry about the apartment sitting empty. There's also demand for furnished condo units, which fetch higher rental prices.

"Investors are back scooping up condominiums as rental rates rise," said Adrienne Albert, CEO of The Marketing Directors. "There is a large appetite for furnished models, sold 'as is.'"

It's surprising that investors are willing to take a chance on residential real estate again so soon after the downturn, when the buyers of new Manhattan condos took haircuts as prices dropped and the spread between rental income and monthly carrying costs widened. As *The Real Deal* reported, a bevy of foreclosures appeared in investor-owned units at new buildings, including the Cipriani Club and 200 Chambers Street. Not surprisingly, investors have been gun-shy ever since, and for the past few years, Manhattan real estate has been dominated by user-owners.

But that is beginning to change, as buyers are tempted by deeply discounted prices. Ironically, many view real estate — especially income-producing rentals — as a safer alternative to stocks or other investments, said Hinricher, who recently cofounded RealYields, a tool to help investors evaluate residential properties.

"The whole crisis was based on this hyper-growth, with prices rising really fast," he said. "Now you see people saying, 'I want to minimize my downside risk; I want a secured stream of income.' So it's really the opposite. People are focused on income and yield, with security."

"If you do the math, it really works for these investors." Richard Steinberg, Warburg Realty

Recognizing solid deals

These attitudes are part of a national trend, said Hinricher, who personally owns single-family homes as investments in Tennessee, Florida and Georgia. Americans feel more confident in the market, he said, and international investors are looking to exploit favorable exchange rates.

"People are feeling brave again and saying, 'Hey, prices are down 10, 15 or 20 percent; why don't I buy something and keep it as a rental?'" said Rolan Shnayder, director of new development lending at Manhattan-based Home Owners Mortgage.

Shnayder said he's now working with two or three times as many investors as last year at this time, though the majority of his customers are still user-owners.

Anthony Lolli, CEO of brokerage Rapid Realty NYC, owns about a dozen investment properties in Brooklyn, most of them three- or four-family houses. Lolli said he hasn't made a purchase for the last two or three years, but has recently started looking again. "I have my ears to the ground right now," he said.

Until now, the aftershocks of the financial crisis made purchases difficult, he said, especially when foreclosures or short sales were involved.

Six months ago, "a lot of people were looking to short-sell and were not educated in the process," he said. As a result, many deals fell apart at the last minute.

Now, however, "sellers have come to terms with what a short sale means," Lolli said. So for buyers, "it's a little easier to recognize a solid deal."

Meanwhile, conditions are improving for investors. Prices have stopped their free fall — at least for now — while rents are climbing. A fourth-quarter market report from Prudential Douglas Elliman showed that the median Manhattan rental price increased 1.7 percent to $2,950 from $2,900 in the same period last year.

Today's investors "believe that the market is at one of its lowest points," said Daniel Hedaya, an executive vice president at the brokerage Platinum Properties. "They're looking to cash in."

Low interest rates also play a role. With many savings accounts now yielding only around 1 percent interest, wealthy New Yorkers are looking for better returns on their money, according to Richard Steinberg, executive managing director at Warburg Realty.

"You put 10 to 20 percent down; get a mortgage of 3 percent for the rest — if you're getting a 6 to 7 percent [return], you're still making twice as much as you would in a savings account," he said. "So if you do the math, it really works for these investors."

The formula works best for one- and two-bedroom units, said Steinberg, who is marketing the newly constructed condo Twenty9th Park Madison at 39 East 29th Street, where one-bedrooms rent for around $4,000 per month, and two-bedrooms go for $6,000 to $7,000.

After years of financial turmoil, some would-be investors now view real estate as a favorable alternative to the volatile stock market.

With real estate, "in the worst-case scenario, there's some value there at the end of the day — versus a stock, [which] can go to zero," Hinricher said.

Gea Elika, founder of Elika Associates, said many of his current clients are seeking investment properties in established neighborhoods like the West Village and the Upper East Side, rather than up-and-coming areas.

"People are looking for stability; they're not looking for speculative growth," he said. The Upper East Side, for example, "is mature but stable — it's like putting your money in a Swiss bank."

Hinricher said part of what's fueling the surge in real estate investing is the growing popularity of so-called self-directed retirement accounts, which allow people to use their IRAs for any investment they choose, not just the traditional stocks and bonds.

For example, Hinricher — who lives and

ILLUSTRATION FOR THE REAL DEAL BY DAVID COLE works in Manhattan — used funds from his IRA account to purchase a single-family house in Miami, which he then rented out. The tenant now writes a check to his IRA account each month, he said, noting that many New Yorkers are now buying investment properties in other, cheaper markets.

However, he said, investors need to make sure they do their research before making a purchase.

"You have to know what you're doing, because some people could lose their IRA pretty quickly over a couple of bad real estate deals," Hinricher said.

Day-one income

Many of today's would-be investors want to buy apartments with tenants already in place.

Hedaya said he was recently approached by a client looking to buy four to five occupied residential units. That's an attractive proposition for the new owner because "you can purchase it, and right from day one you're getting income," said Hedaya.

In response to this trend, some developers have started selling unsold condo units that are currently inhabited by renters, he said. These are generally units that the developers always intended to sell, but parked as rentals when the downturn hit. Now that investors are seeking occupied units, the developers are selling them with tenants in place, Hedaya said, adding that his firm currently has several deals in contract for occupied units.

Warburg's Richard Steinberg at Twenty9th Park Madison, where many of the buyers are investors

At Twenty9th Park Madison, Steinberg said, 100 of the 144 condos were sold, while the remaining units were rented out last year. As those rented units come up for sale, many potential buyers prefer the current occupant to stay.

"Half of the people we are seeing now coming into our building want the tenant to stay in place," Steinberg said. He noted that the terms of the lease remain the same for the tenant regardless of whether or not the unit is sold.

The current market is also creating demand for furnished rental units, which fetch higher rents, said Edward Cho, an associate broker at Nest Seekers International. He said he is about to put a rental unit on the market at newly converted Financial District condo 99 John Street, but is waiting for an interior decorator to finish furnishing it. The owners, international buyers who purchased the unit as an investment, are planning to rent it for six months at a time.

Landlord pains

Of course, investing in real estate isn't as easy as it used to be, especially if buyers want financing.

Mortgages are now easier to obtain than in 2009 and 2010, but they are still difficult to secure, especially for international buyers. In order for Fannie Mae and Freddie Mac to back loans in a new condo building, it must be at least 50 percent sold and can't be too dominated by investors — at least 70 percent of the units have to be owner-occupied.

Plus, investors can expect to pay either 1 percent or half a percent more than owner-occupants on their mortgage rates, Shnayder said. He added that Fannie Mae won't back a loan to a borrower with more than four mortgages, although he said he has worked with some lenders who allow up to 10.

Investing in real estate is challenging for other reasons. New York real estate is much more expensive than in other areas of the country, especially now that a hefty down payment is required by lenders, so yields tend to be lower. And while stocks and bonds don't require maintenance, real estate investors need to be ready to address their tenants' needs.

"You have to be prepared to go through the pain of being a landlord," Hinricher added. Most investors use property management companies to collect rents and handle day-to-day operations, "but you still have to be comfortable with getting that call that says, 'An air-conditioning unit is out,'" he said. TRD

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.

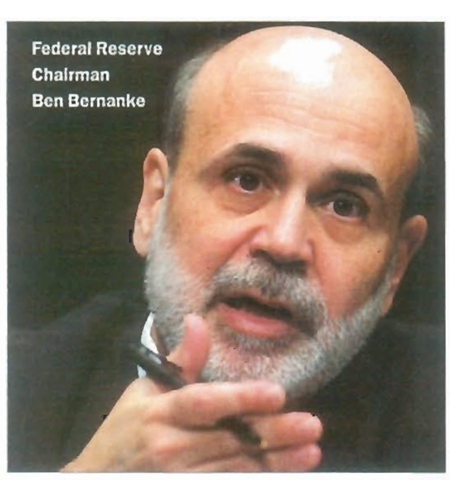
She noted that some savvy investors are "trying to redeploy monetary assets that are not earning a great rate of return right now and are potentially in danger of losing value as we go into an inflationary cycle."

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



Federal Reserve Chairman Ben Bernanke

"We are seeing decisions [to buy real estate] being made in conjunction with protection from inflation more than at any other time [in recent years]."
Julia Hoagland, Brown Harris Stevens

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 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 Elika Associates' Gea Elika, 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," Elika said. "Everyone's looking at inflation."

One client recently bought a one-bedroom apartment in Superior Ink as an investment property, Elika 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

PHOTOGRAPH OF STEINBERG FOR THE REAL DEAL BY MAX DWORKIN