COMPASS

2022 Manhattan Residential Market Outlook

Columbia Vitolo Team at Compass
212.941.7670
columbiavitoloteam.com

110 Fifth Avenue
New York City, NY10011

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As a valued client of our team, we wanted to provide you with clarity on the Manhattan residential real estate markets as we head into 2022. Enclosed are some of our key takeaways. As always, you are invited to schedule an annual equity valuation specific to your property.

Perspective on the Current Market in Three Charts

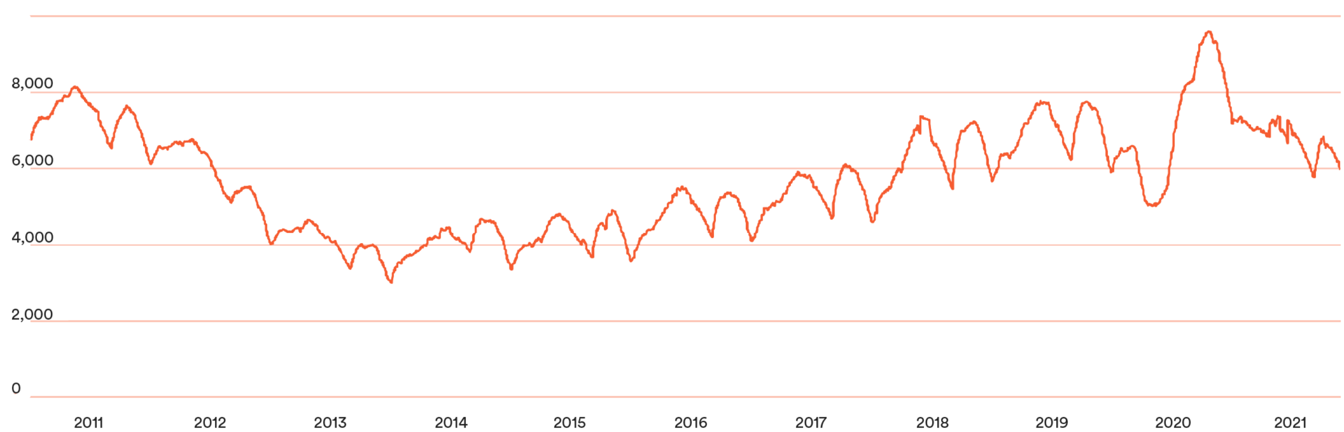
Supply

Showing Supply for any bedroom configuration in All Manhattan for all prices

Manhattan Supply

5,973

▼	**-18.5%**	year to date
▼	**-8.9%**	from last month
▼	**-32.3%**	year last year



More than anything, the real estate market is driven by supply levels—the lower the supply, the more price appreciation occurs. As hot as the market is right now, the heat we are seeing is in the form of liquidity, and transactions, and not price appreciation.

We do expect price appreciation to hit its stride in 2022 and beyond. That market has spent the greater part of 2021 chipping away at the average listing discount from +8.5% in January 2021 to less than 3.8% on average, at the time of this writing, in December 2021.

We are currently hovering just below 6,000 units of supply. For perspective, at its peak during COVID, supply swung to 9,500 units+. At its lows in 2014, supply was at 3,300 units. What followed from this supply low was a decade-high watermark in property values that peaked in 2015.

Takeaway

Supply is now equivalent to 2018 levels which is down dramatically from its COVID peak. Inventory is being absorbed at a brisk pace. The supply trend is down, and it is looking like the lower end of the 5,000-unit range is the next stop.

+ Advantage Sellers

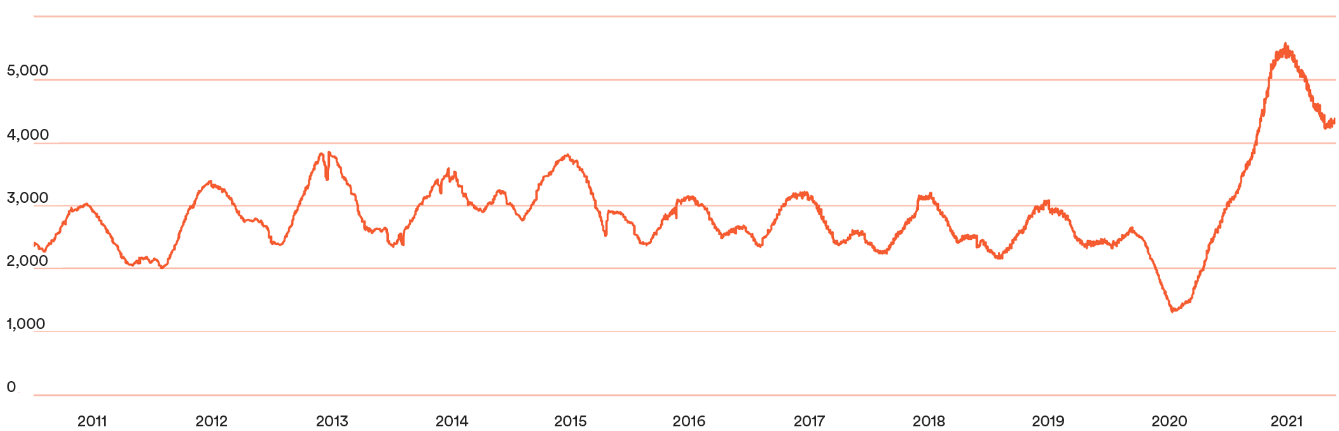
Pending Sales

Showing Pending Sales for any bedroom configuration in All Manhattan for all prices

Manhattan Pending Sales

4,389

- ▼ 43.9% year to date
- ▼ 3.9% from last month
- ▼ 67.4% year last year



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Takeaway

Buyers are taking advantage of probably their last chance to negotiate a meaningful discount this market cycle.

+ Advantage Sellers
+ Opportunity Buyers

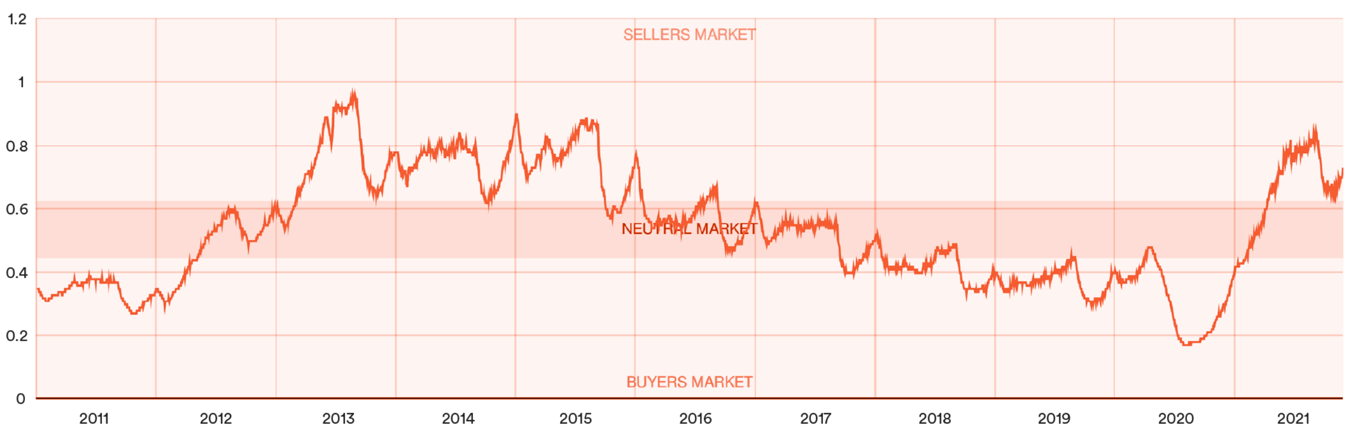
Market Pulse

Showing Market Pulse for any bedroom configuration in All Manhattan for all prices

Manhattan Market Pulse

0.73

▼	73.8%	year to date
▼	14.1%	from last month
▼	143.3%	year last year



Market Pulse is the ratio between pending sales (demand) and supply. In 2021 the Market Pulse rose by nearly 75%. Currently, the Market Pulse is .73. Anything over .60 is considered to be a seller's market. Anything below .50 is considered to be a buyer's market.

Takeaway

The market is churning away and hasn't been this strong from a seller's point of view since 2016.

+ Advantage Sellers

Bullish Market Factors for 2022

- Inflation is at a 20-year high, and hard assets, including real estate, are a safe haven for cash during such inflationary periods. Real estate assets tend to rise during inflationary periods. Inflation also benefits real estate investors who earn income from their rental properties, like multi-family properties, because higher home prices often equal higher rent (which is what we are seeing already).

  We have seen many examples of year-over-year rental increases at 20% to 30% in some of the most sought-after properties in the rental market. All the more reason to purchase.

- Wall Street bonus season is expected to increase bonus packages from 20% to 30%. Financial services compensation levels should reach multi-year record levels as banks maneuver to retain their top talent in a competitive job market.

  For those readers outside of New York City, you should understand that because of the high percentage of financial services buyers living in Manhattan, bonus season, when strong, has a dramatic impact on the early Spring market (Feb, March, April). Keep an eye out for an increased number of bidding wars during this period.

- The return of the Foreign Buyer. What has been missing from the COVID real estate recovery has been the impact of non-US resident buyers entering the market. While not a large percentage of the market, many of the deals are in the super-luxury category and help drive higher $psf averages and record sales. At the end of the day, there will be a higher competition for inventory as these overseas buyers return. Take a walk around Soho, and you will see for yourself that many have already come to enjoy what NYC has to offer.

- The lack of new development planning, which is something we have been tracking since 2018, is about to hit its stride. The high inventory from the previous round of development booms is being absorbed.

  Ask any developer who has done business in the past in NYC if they have any new projects planned, and the answer will be a resounding no. Land and development sites, along with a shifting market, caused most developers to scale back projects or pull out of the market completely as the risk-rewards were no longer favorable.

  As this existing inventory from the last cycle is burned through, the market will see a shortage of newly developed luxury properties. Prices for resales in the new development category will continue to push higher. This is really where the magic will happen in the market. Our team just fielded an all-time record-high offer for a two bedroom resale at 56 Leonard. For the right property, buyers are willing to pay a premium and this will only get more intense as this market continues.

- Equity and Crypto profits will flow into real estate as those market cycles run out of steam. As the stock market teeters at all-time highs and the Fed's tapering of asset purchases continues to move forward, many investors who have done well will take some money off the table. With inflation at 6.2% at least, none of these investors want to be holding cash if they can avoid it. In times like these cash is truly a four-letter word.

- New York or nowhere. As NYC hits its stride and more and more people come to visit or call it home New York is positioned for tremendous upside. The mayor-elect Eric Adams is focused on resolving the quality-of-life issues that have tarnished NYC post COVID. Adams has also made it clear that he intends to revitalize nightlife and encourage Cryptocurrency as an industry. No one knows how this will play out, but our advice is never bet against New York.

Potential Market Headwinds for 2022

Mortgage interest rates. Already off their lows and rising into the 4% range, nothing smolders a hot market quite like the loss of purchasing power caused by rising interest rates. Remember, somewhere around 50% of all the deals market-wide are at $1M and below. This key sector of the market is affected almost immediately by a change in mortgage rates. Will it happen? We can't predict the future, but if we had a down payment in cash sitting in a bank account, our recommendation would be to jump into the market.

The trajectory of NYC real estate has, for at least the past two decades, been tied to the rise or decline in Equity markets. For as long as we can remember when there is a significant drop in the market (10%+), buyers tend to become jittery. Simply put, when the stock market corrects buyers immediate reaction is to put the brakes on shopping for an apartment until the dust settles. Nothing slows the momentum of the real estate market like an equity market in free fall. Shrewd buyers will use it to negotiate a more significant discount, and nervous buyers will step to the sidelines. Will it happen? Your guess is as good as ours, but history does have a knack for repeating itself.

It's worth noting that the contrarian take on equity markets are the more money that flows OUT of the equity market, the better it is for real estate valuations. When equity returns hit single digits or worse, lookout for cash to flow out of the equity market, no one is looking to keep large amounts of cash with 6%+ inflation - real estate becomes more attractive.

While remote, there is the potential for buyer price exhaustion. As more and more news reports come out declaring "NYC Real Estate on Fire" what tends to happen is that sellers list their properties a bit too far ahead of the pricing curve. Buyers already struggling with the loss of purchasing power start to pull back, and finding a meeting of the minds between the bid and ask becomes increasingly difficult. These types of transitioning markets can be sparked by a change in the Macroeconomic picture.

As always please feel free to reach out to Todd Vitolo or Susanne Columbia with your specific questions.

*charts and data provided by Urban Digs

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Susanne Columbia
Columbia Vitolo Team Compass
Licensed Associate RE Broker
susanne.columbia@compass.com
917.767.4489

Todd Vitolo
Columbia Vitolo Team Compass
Licensed Associate RE Broker
todd.vitolo@compass.com
917.566.7920