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Drop in Offering Plans Less Severe Than Anticipated

By CANDACE TAYLOR, Staff Reporter of the Sun | July 24, 2008
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FOR THE FIRST TIME IN NEARLY A DECADE, THE NUMBER OF OFFERING PLANS FOR NEW apartments in New York City is slowing, according to data obtained by The New York Sun.

While the decline serves as confirmation of the housing slowdown, officials said it is far less dramatic than what they had originally feared, after a 46% drop in city building permits in the first quarter of this year.

Offering plans and building permits "go hand in hand to some extent," the chief economist at Terra Holdings, Gregory Heym, said. "I expected them both to decline sharply."

The New York State attorney general's office accepted 663 offering plans containing 25,271 units last year, a 4.5% decline from 2006. The drop in offering plans is the first since 1999.

Statewide, the number of such plans is also down, slipping 19%, to 311, for the first few months of this year compared with the same period last year. If the trend continues, the number of offering plans across the state is expected to fall roughly 11%, to 746, by year's end.

"That's a big decrease," a real estate attorney, Adam Leitman Bailey, said. "It appears this is the end of an era, of this incredible building boom that many thought would never end."

Offering plans, which must be accepted by the attorney general for a developer to begin selling units at a development, usually decline and increase in line with building permits: Permits are filed first, and must be accepted for a developer to launch construction on a project.

In April, the U.S. Census Bureau released data showing that building permits in the city had dropped 46% in the first quarter compared with the prior-year quarter. The real estate industry was bracing for a similar slowdown in offering plans.

Instead, the decrease in offering plans was less severe than anticipated, as such plans tend to be a lagging indicator and do not reflect the full slowdown in the housing market, industry officials said. While building permits are filed first, not all of the projects are built; in addition, a large increase in building permits in the months before the deadline for changes to the 421-a tax exemption program was followed by a significant drop-off, rendering the two figures somewhat out of whack.

"The permits are the leading indicator," the president of appraisal firm Miller Samuel, Jonathan Miller, said. "The offering plans are behind the curve."

The vice president for development at Toll Brothers, David Von Spreckelsen, said the estimated 11% decrease in the number of offering plans statewide this year is "not precipitous," reflecting the continued strength of the market. "People are still doing projects. Some of the guys who are on the fringe are dropping out."

As inventory in condominiums and co-op apartments decline, prices are likely to rise, industry officials said.

"With less offering plans, it will definitely protect the market," the chief executive of the Real Estate Group, Andrew Barrocas, said. "I think it could be an excellent thing."

The data also show that New York, in contrast to markets in Florida and California, will not be flooded with new properties for sale.

"It's extremely encouraging to me to know that we're smart enough to not have built more units than we actually need to live in," Mr. Bailey said. "By slowing the number we're building, we're recognizing that there may not be a demand for our supply."

The number of new condominiums and co-ops began to decline in the mid-1980s, falling to 950 units in 1993 from 52,245 in 1986, according to the 2008 Housing Supply Report, released last month by the New York City Rent Guidelines Board.

"It really bottomed out in a good part of the 1990s," Mr. Heym said. "There was almost no product coming on the market."

As the nationwide economy began to improve, the number of offering plans began growing again, starting in 1999, creating the housing boom of the last nine years. Even the dot-com boom of the early 2000s and the terrorist attacks of September 11, 2001, resulted in relatively mild blips in the Manhattan real estate market, Mr. Heym said.

Wall Street layoffs, the credit crunch, changes to the 421-a tax exemption program, and the lack of available land in Manhattan are all contributing to the present slowdown, Mr. Heym said.

Still, the cooling market does not augur a crash like that of the early 1990s, he said. "Over 300,000 jobs were lost in the early 1990s," he said. "We're nowhere near that."

The market for new development has proved to be particularly strong, despite the slowdown, Mr. Heym said. "Over one-third of all closings last quarter were in new developments," he said. "That's a tremendous number." And while condominiums in the recent past made up between 20% and 25% of the New York City market, they now account for more than half.

"Once the inventory dries up, prices will go up again," a partner at the real estate law firm Belkin Burden Wenig & Goldman, Aaron Shmulewitz, said. "We're entering a valley. How deep the valley will be and how wide it will be, nobody knows yet. But for sure, there's a mountain on the other side."