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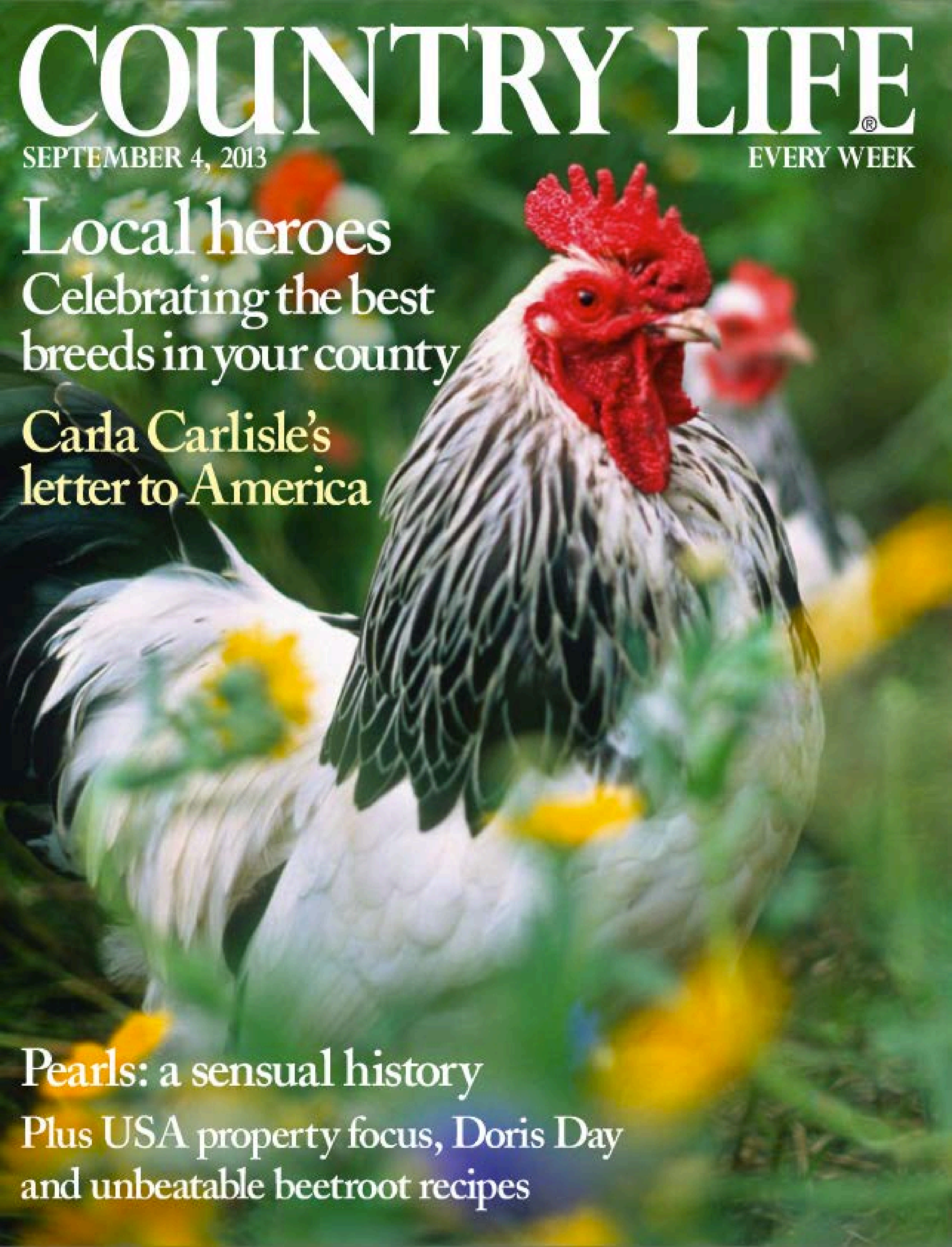
EVERY WEEK



Local heroes

Celebrating the best breeds in your county

Carla Carlisle's letter to America

Pearls: a sensual history

Plus USA property focus, Doris Day and unbeatable beetroot recipes

Edited by Carla Passino

Once upon a time in the American market

Jonathan Miller retraces the history of the American property crash and examines what is driving fresh price rises plus COUNTRY LIFE chooses three leading properties

AFTER five years of moving sideways, the Manhattan housing market has seen a sharp rebound in sales activity since the collapse of financial services company Lehman Brothers in 2008, which marked its tipping point. Today, it looks better equipped to handle the new global economy than many other American locations.

During the last housing boom, Manhattan property did not see the highly speculative conditions that affected other parts of the country. In many markets, including California, Arizona, Nevada and Florida, housing was largely driven by speculation or flipping. Widespread participation by inexperienced investors drove prices to unsustainable heights in many areas.

Now, the market is once again starting to become a little frantic. Bidding wars, lack of supply and flipping are back to the forefront as buyers become concerned about being left behind. This seemingly sudden rebound has prompted many to question whether we are experiencing serious *déjà vu*.

Manhattan real-estate vernacular

Apartment In the Manhattan market, all living spaces in multi-unit buildings whether they are a rental, co-op or condo, are referred to as apartments. This is much broader than elsewhere in the USA, where it usually refers to a rental unit.

Co-op Comprising 75% of the non-rental apartment market, they are form of ownership where the owner is a shareholder in a private corporation, subject to its rules and overseen by the co-op board.

Condo These units are owned in fee simple [freehold] and are considered real estate. Typically, the condo association only has the right of first refusal when a unit is sold, allowing it to match the price offered by a buyer, but otherwise does not have the power to approve a purchaser, unlike a co-op. Condo ownership tends to be more valuable than co-op ownership.

New York City, $15.825 million Astor Place Tower, NoHo Halstead (00 1 212 381 4248) This magnificent apartment occupies the entire 17th floor of the Astor Place Tower, designed by Gwathmey Siegel & Associates Architects. The stylish open-plan reception rooms, with their high ceilings, are perfect for entertaining, but what really steals the show here are the dramatic views of the city that are framed by the full-width glass walls

The last decade's housing bubble was characterised by insatiable consumer demand fuelled by unlimited and unchecked access to credit, following the US Federal Reserve System's (FRS) effort to restart the economy after the 2001 recession and the attacks of September 11. Interest rates were pressed to the floor and held there until mid 2004. Property values rose rapidly and a growing number of people became priced out of the market.

Worried about inflation, the FRS began to lift interest rates to cool off the economy and slow down housing-price growth. But it was too late. Financial institutions were seeing huge revenue flows through their lending and related financial-service pipelines. The rise in property value placed more downward pressure on deal flow and, to counter fewer transactions, the financial system began to chip away at lending standards, allowing more consumers to qualify at easier terms and keeping the pipeline full.

Yet, even with the removal of underwriting standards and the proliferation of easy access to mortgage money, consumers still could not keep pace with falling affordability and continued to drop out of the market. The 'greater fool theory'—the belief that buyers can always resell, even if they don't believe the price is supported—had run its course.

Today, the opposite is taking place—the new boom has been created by a lack of supply resulting from some of the tightest lending standards in decades.

Mortgage criteria remain well above long-term historic norms. The FRS describes American residential mortgage lending as being nearly as restricted now as in the days following the Lehman Brothers bankruptcy. Lenders continue to fret about risk—understandably. Many regulations within the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 haven't actually been written, so banks don't really grasp the new boundaries. They are still facing significant exposure to buying back poor-quality mortgages that were issued during the prior boom, and with record low mortgage rates, the rate spread allows little margin for error on new loans. On top of these challenges, there remains high exposure to loan modifications, foreclosures and short sales.

Although it sounds highly counter-intuitive, all this is pushing up American housing prices. The majority of would-be buyers have to qualify for mortgage financing by having

New York City, $20.9 million
50, Central Park West, Upper West Side
Savills (020–7016 3740) and Stribling & Associates (00 1 212 452 4384 and 00 1 212 452 4387)
This duplex apartment combines long views across Central Park with the period charm of the Beaux-Arts building within which it is set. It has 10ft ceilings and original herringbone floors in the main reception rooms

an adequate credit score, meeting strict debt-to-income ratios and—perhaps the largest challenge—having enough equity to buy a property.

Almost 45% of American homeowners with mortgages have low or negative equity. In other words, they don't qualify to purchase another home. Because they can't buy right now, they won't sell. This in turn restricts stock available to property owners who are not impaired by tight credit. They, too, won't sell until they can find something to buy.

As a result, supply has been falling over the past few years, and has fallen fastest over the last year. With limited credit availability choking off inventory, housing prices rise.

The market has now entered a period of transition between recession and recovery. The hope is that, as economic fundamentals improve, the housing market will continue to pick up. It will be a slow process because personal income growth is stagnant, unemployment levels, although falling, still remain too high and access to credit remains strained.

Despite rising mortgage rates, momentum remains firmly in place. The largest market driver right now is not low rates, but the combination of low inventory and a release of pent-up demand—last year, prospective buyers sat on the fence during the debate on the fiscal cliff [the increase in tax coupled by a drop in government spending that was set to take place this year, but was eventually averted]. And, as interest rates rise with the improving economy, credit conditions may begin to ease.

The Hamptons, $4.35 million
Waterfront villa, Bridgehampton
Knight Frank (020–7629 8171)
For buyers who would rather live by the sea, this five-bedroom, 5,600sq ft house in Bridgehampton is the perfect retreat. Painstakingly renovated in 2008, it offers elegant, restful interiors with a traditional feel

Nonetheless, cash buyers today have a distinct advantage over those dependent on mortgages. This is one of the reasons prime domestic and international buyers have thrived in markets such as Washington DC, New York, the Hamptons and Miami. Although there is no reliable data on the number of cash buyers in New York, it is believed to be at the highest level in decades, favouring the luxury and new-development markets.

Manhattan in particular has enjoyed an inflow of housing demand from three key global regions: the Eurozone, whose revenue-starved member countries are ratcheting up tax exposure and regulatory overlay on the wealthy; South America, especially Brazil, where cost of assets has prompted investors to look abroad for new opportunities; and Asia, namely China, where many affluent people are interested in moving some of their capital abroad.

This global economic turmoil has fuelled the perception that the USA is a safe haven for international investment, turning property in markets like New York's into the new global currency.

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