# The Co-op Market Heats Up

By Jonathan Miller, President
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Despite a mixed economic climate, the Manhattan co-op market has been characterized by rising prices over the past year. We can thank mortgage rates at historical lows and a tight supply of apartments available for sale for the bigger bite out of our wallets. From fifth-floor studio walk-ups in Greenwich Village to rambling prewar Fifth Avenue apartments overlooking Central Park, all segments of the market have been affected.

According to the Manhattan Market Overview that I author, there were significant increases in the average sales prices in all co-op size categories over the past year: studios averaged $285,766, up 18.1 percent; one-bedrooms averaged $478,245, up 15.3 percent; two-bedrooms averaged $1,092,358, up 20.9 percent; three-bedrooms averaged $2,668,386, up 18.7 percent; four or more bedrooms averaged $6,870,603, up 38.8 percent. More than $1.2 billion worth of Manhattan co-op apartments traded hands in the third quarter.

There is renewed interest by first-time buyers and buyers of pied-à-terre for studio and one-bedroom apartments. Their share of the co-op market increased from 50 percent last year to 58 percent in the most recent quarter. Buyers in the entry-level market are more sensitive to the coming changes in mortgage rates that were predicted to rise gradually over the next year. They are attempting to lock in now to take advantage of low rates. However, the jury is still out on the economy right now, as evidenced by falling mortgage rates, despite a series of interest-rate increases by the Federal Reserve.

Perhaps one of the most compelling reasons for the recent spate of price increases has been the lack of inventory. As compared to the 1980s, there has been limited conversion of rental buildings to co-ops and virtually no new construction as such. The co-op housing stock enjoys an 80 percent market share compared to condos, which are relative newcomers to the New York housing market. Yet inventory of co-ops has changed very little since the conversion frenzy of 20 years ago, since most of those rental buildings it made economic sense to convert to co-ops were converted. The basic principles of supply and demand apply. Demand continues to increase, and supply remains relatively inelastic; therefore prices continue to rise. Over the past year, the number of co-op apartments available for sale fell 2.8 percent to 3,373 units; the number was down 22.7 percent from early 2003.

Areas with the greatest increase in sales in the third quarter have been the Union Square to Murray Hill area, Greenwich Village, and Lenox Hill, with increases of 43 percent, 39.8 percent, and 37.1 percent, respectively, compared to the prior quarter. The Downtown market saw the largest increase in the number of sales, followed by the West Side and the East Side, with 24.3 percent, 20.8 percent, and 12.2 percent gains.

Over the past several months, the neighborhoods of Greenwich Village and Yorkville have seen the most increases in average sales price, posting 19.2 percent and 15.6 percent gains, respectively, from the second quarter to the third quarter of this year. One reason for the gains was the activity of studio and one-bedroom apartments, a large component of the existing housing stock in these neighborhoods. The largest gains in the studio and one-bedroom markets besides these neighborhoods were found in the Riverside Drive/West End Avenue corridor, which saw 36.9 percent and 16.9 percent increases, respectively, as well as the Lower East Side/East Village areas, which saw 31.7 percent and 11.1 percent gains, respectively.

The Lower East Side, Lenox Hill, and Lincoln Center showed the largest co-op two-bedroom price gains, with 24.9 percent, 23.4 percent, and 21.7 percent increases in the most recent quarter. The three-bedroom Upper West Side and Fifth Avenue/Park Avenue corridor had increases of 26 percent and 14.1 percent, respectively, over the same period.

The co-op market has benefited from a static supply of apartments at inadequate levels to meet demand. Prices have risen in all categories. The surge in both the number of sales and price levels of entry-level co-op apartments has been a key characteristic of the current co-op market. The engine fueling the demand has been low mortgage rates, which have been held down by lower-than-anticipated gains in the regional economy.

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