

Owning trumping leasing

Rising rents, cheap mortgages ignite sales of small apartments.

By [Amanda Fung @amandafung](#)

April 8, 2012 5:59 a.m.

Last week, Michelle Lynn and her husband went into contract on a \$360,000 alcove studio apartment on East 57th Street, near the river. The couple, who live upstate, had originally planned to rent a place in town as they did years ago, but when they started looking late last year, they couldn't find anything in their price range.

“We were shocked at how high rents are,” said Ms. Lynn. “This is our first purchase in the city, but it's a good place to park our money.”

What's more, rock-bottom interest rates will keep the couple's monthly payments, including common charges, under their \$1,800-a-month target, she said.

In fact, with rents in the city again approaching record heights, and mortgage rates at near-record lows, an increasing number of first-time homebuyers in New York are deciding that it would be cheaper—and smarter—to own rather than rent. Signs of that shift are showing up in a surprising spike in sales across the city of so-called entry-level apartments—studios and one-bedrooms—whose buyers are typically more price-sensitive.

Fanning the flames of the buying surge is a growing confidence that after years of falling, home values have at last bottomed out. Additionally, people are feeling more secure about their jobs, as positive economic news is starting to surface.

“Entry-level buyers are now making a commitment,” said Adrienne Albert, chief executive of the Marketing Directors, a residential sales firm. “Confidence has returned to the marketplace.”

The surge in sales of starter units actually began last year and has now carried to the point where as of the end of the first quarter of this year, they accounted for 56.2% of all closed sale transactions. That figure is well above the 10-year quarterly average of 50.9%, according to a report by Prudential Douglas Elliman and Miller Samuel Inc. It is also the largest market share



for such units since the fourth quarter of 2009, when the first-time homebuyer tax credit artificially boosted such sales.

It's in the cards

With the arrival of spring, the busiest time of year for the market, sales are expected to continue to heat up. Contract signings for entry-level apartments during the first three months of the year, a precursor to closings on such units in the second quarter, are also up strongly. From January through March, 344 studios and 973 one-bedrooms in Manhattan went into contract, up 19% and 11.6%, respectively, from the same time a year ago, according to StreetEasy.com.

Rising rents, fueled by high demand and tight supply, are driving much of the activity. In fact, a recent report by brokerage Citi Habitats showed average Manhattan rents in February at \$3,376, just \$18 shy of the market's peak, set in May 2007.

“The rental market is helping us because people don't want to throw money away,” said Shlomi Reuveni, senior managing director at Brown Harris Stevens Select. “They would rather buy and have equity in their home.”

As a result, studios and one-bedrooms across the city are being snatched up at a rapid clip, even at buildings that are still under construction. At the 37-unit 422W20 in Chelsea, where about a quarter of the units are one-bedrooms starting at \$650,000, only one such unit is still available, even though the building launched sales at the end of March.

“We had some first-time homebuyers, empty-nesters, families and even international buyers,” said James Lansill, a senior managing director at Corcoran Sunshine Marketing Group, which is handling sales at the building. So far, 62% of the units at 422W20 are in contract even though construction won't be done until this summer. Sales of starter apartments at buildings that have lingered on the market for months are also suddenly picking up. At the 44-unit Apex Condominiums in Harlem, where the Marketing Directors began selling 14 months ago, larger units were moving first, according to Martin Brady, the firm's vice president of sales. “We were concerned at one point, but things have turned around,” he said, adding that during the weekend of March 31, he received four offers on one-bedroom units and one on a studio. He said he expects to sell out by summer. The building is currently 75% sold or in contract.

Bidding wars

“It's amazing how many apartments are being purchased,” said Michele Portnof, a broker at Charles Rutenberg Realty, who represented Ms. Lynn in her deal.

Even unattractive starter apartments are getting scooped up. A 200-square-foot ground-floor studio on West 70th Street in Lincoln Square went into contract for \$235,000, 20% over asking, said Jessica Cohen, a broker at Prudential Douglas Elliman, who represented the seller. To her surprise, it received nine offers, half of which were over the asking price. It was tiny, but a steal: With a \$330 monthly maintenance fee, the new owner would be paying roughly \$1,350 a month, including a mortgage, she said.

“You can't get a studio that size anymore in the neighborhood for that price,” added Ms. Cohen.

Correction: A 200-square-foot, ground-floor studio on West 70th Street in Lincoln Square went into contract for \$235,000. The amount was misstated in a previous version of this article, originally published online April 8, 2012.

Read more:

http://www.crainsnewyork.com/article/20120408/REAL_ESTATE/304089969#ixzz1re1JKDP