

Is Manhattan's luxury condo market nearing its peak?

New York's luxury condo market could be nearing a peak as apartments priced at more than \$2m make up almost half of the new inventory coming online and less affordable space is being constructed. "A major problem is the uniformity of the supply," Bruce Batkin, CEO of Terra Capital Partners, said. "The supply side is almost exclusively high end; the demand side isn't. I doubt whether the luxury condo market is deep enough to absorb all of the units in the pipeline, particularly those in marginal locations."

The Corcoran Report, published by The Corcoran Group, found that 41% of today's condo inventory is priced above \$2m and much of that is large, expensive residences that the market needs time to absorb. But rising prices stemming in part from higher construction costs are leading buyers to shy away from luxury condos, which in turn is creating an abundance of supply. "The buyer pool gets exhausted when the cost of converting or developing drives pricing to a point where there's no market for it anymore," said Jeffrey Oram, executive managing director at Colliers International. "I think we're probably about 12 to 18 months from the top of the condo market."

As a result of the dramatic increase in NYC land and construction costs, developers have little choice but to deliver high-margin luxury condos to cover those costs. "The cost per build-able foot has escalated meaningfully, which is why there is



an abundance of luxury product, but I'm skeptical as to the market depth," Batkin said.

Foreign investors, a key condo buyer, are hesitant to step into the luxury condo market and, in some cases, have begun placing capital with middle market product. "We had a group of experienced condo experts from Hong Kong come into the city recently, and they said they didn't want to play in the luxury market because they didn't think it was very deep," Oram said.

Because foreign investment has been a big driver of New York's luxury condo market, this presents further concerns about how all of the new product will be absorbed. "When there are cranes on every corner, and the product type and target market are so uniform, it's a bad sign," Batkin said. As a result, Batkin believes that as millennials marry, have families and confront cost, space and education issues, they will begin to migrate to the suburbs. "There is an unsustainable difference today between prices of high-end suburban homes and prices of high-end NYC condos," Batkin explained. "I predict you will see greater equilibrium as the millennials age and relocate."

In the meantime, overbuilding remains a big concern as increasing supply of luxury condo product relative to a lack of demand is causing the market to become frothy. "I don't know if the luxury condo market will crash in one, two or three years, but I don't think it's going to end well," Batkin said.