BUYING A HOME IN NYC? SOME THINGS TO CONSIDER

by Merry Sheils • Tuesday, September 27th, 2011

To buy or not to buy, that is the question, to parody Shakespeare. And the answer may be equally ambiguous.

Everyone with a pulse knows that real estate is in the tank and not expected to improve any time soon. Yet, New York City seems to be different (aren't we always?) in that there still is demand, fueled by foreign investment perhaps, but also by those of us who, despite it's quirks and craziness, can think of no better place to live.

At a real estate symposium sponsored by MetLife Bank who specialize as mortgage brokers, some interesting statistics were noted:

- 30-year mortgages now are 3.75%, compared with January of 1949, when they were, yes, higher: 4.35%.
- In 1971, 30-year mortgage rates were 6.32%, and in 2002, were 8.75%.
- The 10-year Treasury Bill, now with a coupon of a meager 1.85%, carried a 6.23% rate in 1971.
- In 2006, FHA underwrote only 3% of all residential mortgages. Now, it underwrites nearly 41% of all new residential mortgages, thanks to the problems of Fannie Mae and Freddie Mac.

Currently, all-cash transactions in New York City represent a staggering 40%. Foreign buyers come with pockets full of cash to plunk down, no questions asked, it seems. But, some wonder, will real estate continue as a hedge against uncertainty? The psychology behind it is clear: in an age of uncertainty, at least your home is certain. But, is it really?

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New York City's market is segmented into various price points between cooperative apartments and condominiums, not particularly by location. Condominiums are a bit pricier, since they offer more flexibility i.e., an owner can rent to another party without the hassle of a cooperative apartment's requirement for board approval.

The area encompassing Third to Fifth avenues is still considered excellent. While some suggest staying away from Second Avenue because of the subway construction, others say that now is a great time to buy there, since prices are lower. When the subway is completed (it's been in the works for 90 years!) prices should reflect the addition of convenient transportation. Note to Second Avenue bus riders: your deliverance is coming, but not for at least another six years.

None of this is to say that all regions of the country are improving. California, Arizona and Nevada clearly are struggling, and the outlook for improvement is grim, to put it charitably. So, while New York City may not yet be at the peak demand levels of 2006 and early 2007, it is still good, relatively, according to Michele Peters, one of the panelists who practices as a real estate attorney. She attests to helping some owners with short sales to preserve whatever value remained in their apartments in the city. NB: A short sale results when the proceeds are less than the original purchase price of the apartment.

For all the rhetoric about the difficulty in obtaining financing to purchase an apartment, surprisingly, some requirements actually have improved. In 2007, the required debt-to-income ratio was 42%. In 2011, lenders are allowing a ratio of 50%. In 2007, banks required at least three months of reserves to pay the mortgage and maintenance. Now, the requirement is merely two months. But (and here's the ringer), the applicant must be employed. In New York City, where so much of our economy is dependent upon the financial services industry, some say unemployment is closer to 19%. That group won't be qualifying for a mortgage any time soon, no matter what the interest rate, debt-to-income ratio or cash reserves requirement may be.

The obvious question for New Yorkers is, why buy now? Linda Stillwell, another of the panelists who partners with her husband, Dennis, at the Corcoran Group, says she always asks her potential buyers, "If you don't buy, what will you do? Some may opt to continue to rent, "but that is not necessarily a safe haven, since rents are rising, and landlords are granting fewer concessions", she adds. They don't need to – not as much new housing stock is coming on the market, because sellers are not moving. If you do decide to rent, you'll pay dearly for the privilege, in her view.

Is it safe to buy? Kelly Evans, the Wall Street Journal's real estate reporter, commented that while prices are not at their all-time highs, they are close. "If you have to be here for your job, and if you plan to live here for five years, it probably is a good decision to buy".

When asked, "How do I know what I'm buying will be a good investment", Michele Peters posited that the $500,000-and-below market remains strong. "If you have a job, there is strength in being in New York City". (There's that pesky job requirement again). And, lenders now are looking beyond just the buyer to the buyers' employers. Even a employers must pass muster now. No one wants to be lending to another investment banker from Lehman. These are different times.

Linda Stillwell has advice for those buyers who still may be scared. "You are better off buying in the fall market, and if you are selling, wait for the spring market. While the market may seem iffy, with little volume, it reflects the change and uncertainty that is endemic in these times".

So, to buy or not to buy? That still is the question. New York City is unlike no other place, as we all know. Even with its craziness, people still want to live here. Those of us who are fortunate enough to have purchased our apartments many years ago have seen the values rise. What the future holds is anyone's guess. But, there's only one New York City.