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Addressing the Realities of Residential Real Estate

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Mopping Up 2011 and Looking Ahead to 2012

Is Residential Real Estate Off Life Support?

I like to tell clients that there is always a worst case scenario, but that the worst case scenario rarely occurs. For those of us in New York City, real estate Armageddon never really happened. Yes, things got quiet... very, very quiet for awhile, but that feels so 2009 at the moment. Now that we have battled our way through 2011, what have we learned and what can be expected in 2012 and beyond?

It's All About Them

Ask brokers and transactional attorneys what the biggest issue was in 2011 and the entire residential real estate industry could respond in unison: "the banks." Leaving aside the coveted all cash buyers and foreign investors, day-to-day deals were slowed to a crawl by the bank's imposition of onerous and complicated lending guidelines, often applied inconsistently. Exhibit A: In one recent situation, one bank approved the borrower but not the co-op and another lender approved the co-op, but not the borrower. With a tip of the hat to Abbott & Costello, the underwriting process has become reminiscent of "Who's on first, What's on second."

Co-op and Condo Chaos...

As a result of changing underwriting guidelines brought to you by Fannie Mae and related agencies, the credit worthiness of the co-op or condo in which the apartment is located has now become just as important as the credit worthiness of the borrower. In fact, it is often easier to get the purchaser approved than it is to get the co-op or condo qualified. The co-op or condo's failure to satisfy lending guidelines was a major factor in both causing substantial closing delays, and in some cases, the inability to complete transactions in 2011. And to the consternation of purchasers, sellers and their handlers, this issue will be the gift that keeps on giving in 2012. Purchasers are well advised to examine the financial bona fides of their intended co-op or condo as early in the process as is possible. As we have learned all too well, a loan commitment letter is the functional equivalent of a "pre-approval letter" until the bank's co-op or condo review committee has given the thumbs up to the purchaser's intended home.

Unintended Digital Consequences

Thanks to the Internet, we have become a value-obsessed society. Every service or good must be acquired at the lowest possible price point or the consumer feels defeated. Real estate is no exception. Through websites such as Streeteasy and buyfolio, consumers can identify and compare the best values for similar housing stock and determine the lowest pricing. Value has become the truly sought after amenity. Once upon a time, the copy in a listing actually stimulated the purchaser's interest. Today, there is a spreadsheet mentality, where the purchaser is often as knowledgeable as the broker about comparables and a host of other issues. Although many in the real estate brokerage community worship at the altar of social media, digital style without substance will soon go the way of the eight track tape. Purchasers are demanding more from their professionals as a deeper knowledge of the complexities of the transactions becomes commonplace. Those brokers who use the listing aggregator model to attract their customers, do so at their peril.

About that Worst Case Scenario...

So now that New York seems to be on the other side the real estate meltdown, there is one developing storm... Next year and beyond, an owner of an apartment in a co-op or condo with questionable finances, low owner occupancy, ongoing major litigation or other significant title issues, and most importantly, low or non-existent reserves, may find him or herself in the unenviable position of not being able to sell the apartment except to an all cash buyer. And once you drift down from the top of the pyramid, the all cash buyer gets harder and harder to find, as most buyers will require financing. Like Phoenix, Miami, Las Vegas and other cities, New York may be creating a category of apartments that are unsellable, because the banks will not lend in buildings that cannot satisfy their lending guidelines du jour. Could this scenario actually come to pass? Actually, I think it's already happening.

Residential Reality: The New Normal Continues to Evolve...

There are any number of factors that impact residential sales, from shrinkage in the financial services industry and unemployment levels in general, to political uncertainty and reverberating global economics. Notwithstanding these unknowables and sometimes imponderables, New York real estate carries on, despite the incoming. There's no hard data to suggest that 2012 won't be a better year for those of us in the real estate playground, as long as we accept the fact that the rules of the game will be constantly changing...

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