# The Stamford Review

Fall 2003

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To contact the editor, please address correspondence to Lawrence Sicular, 360 Riverside Drive, New York NY 10025.
Design and production by Annabel Lee.
The editors will consider unsolicited manuscripts and mail may be published in a Letters column.

# CONTRIBUTORS

**Bryce MacDonald** is a partner in his family's real estate business, MacDonald & Cie. He has been involved in the purchase and development of apartment and office buildings in New York City, including 48 Wall Street, 770 Lexington Avenue and 515 Park Avenue. He can be contacted at beam@att.net This article was adapted from a paper written for Professor Hervé A. Kevenides at New York University.

**Damien Scott** recently graduated from New York University, with a dual major in history and Latin American studies, and has lived and/or traveled in Buenos Aires and in Cuba. His honors thesis was on the Mariel Boatlift and the preceding relationships between Cuba and the United States. He may be contacted at djmudodiablo@hotmail.com

**Gail Shaffer** was raised on a farm in the Catskills and has lived in New York City, Washington, DC and Paris. While New York's Secretary of State, she managed the state's coastline, regulated its real estate industry, and chaired the Yonkers' financial control board during its desegregation battle. She also served in Washington as CEO of Business & Professional Women/USA and more recently as the President and CEO of the Brooklyn Historical Society. She may be contacted at gailshaffer@hotmail.com

**Lawrence Sicular** is the editor and publisher of the Stamford Review. He is also a real estate appraiser and analyst in Manhattan and has written a number of articles on Manhattan's housing markets.

# INTRODUCTION

This is the first issue of The Stamford Review, a publication that reflects my interests in real estate, architecture and urban affairs. The purpose of The Stamford Review is to observe and to criticize. Our readers are those who seek in-depth coverage and alternative viewpoints.

For this first issue, two outside contributors offer novel and exciting additions to our ongoing interest in Manhattan's housing markets.

Bryce MacDonald is a young and forward-thinking businessman who examines the problems and potential of Manhattan's Downtown office district. His analysis of Downtown office buildings, and their potential for conversion to rental housing, is the clearest that I have read. His prescriptions for accelerating Downtown's improvement would realize the potential synergies of an activist government policy and creative market capitalism.

Gail Shaffer is well known as a progressive political figure in New York State. Her knowledge and experience of urban affairs is shared in her essay comparing New York City and Washington, DC. Her historical analysis examines the positive and negative impacts of urban planning, government control, diversity and free enterprise. She introduces important concepts that provide a basis for understanding the differences between cities.

Publications like The Stamford Review are not possible without the support of others. I would like to thank not only our writers, but also the many experts who contributed to these articles. Not all of them are cited. Brown Harris Stevens provided an audience for my own, previous, writing efforts. Annabel Lee provided the design and layout. Dan Arthurs set up our web site, e-mail and on-line payment method. Our advertisers and subscribers made this effort economically possible. My family, friends and personal advisors have been behind me in this new venture.

Everyone should have a fairy godmother. Mine has been Barbara Cardozo who introduced me to Manhattan's real estate market, to Douglas Elliman and to new clients. This first issue is dedicated to her.

Lawrence Sicular
Stamford, New York
September 13, 2003

# At the Top of the Market

Manhattan's Multi-Million Dollar Apartment Market
August 31, 2003

by Lawrence Sicular
with Damien Scott

Although it is well known that Manhattan's top apartments sell for millions of dollars, it is not clear how these apartments should be characterized or at what price level they should be defined.

Even in Manhattan, however, five million dollars is as an impressive sum of money to spend for housing. At five million, the apartments are typically large, well located and furnished with some level of sophistication. My associate, Damien Scott's, preliminary research focused on the market for apartments asking over five million dollars.

Subsequent interviews with brokers, active at the upper end of the market, indicated that our definition was not universal. Although we inquired about apartments asking over five million, we found that brokers referred to different price levels and types of apartments, depending how they chose to illustrate an opinion, their positions as brokers or managers, and the nature and breadth of their clientele.

Caroline Guthrie, a broker at Edward Lee Cave, suggests that the top of the market is perhaps better defined as apartments selling for over seven million, rather than five million dollars. The five million dollar apartment is still a family apartment, and a market where owners are often interested in "trading up" to something better. This argument is well grounded. Apartments that sell in the five millions are large, well-located and even finely renovated, but are not grand at the level of an 834 Fifth Avenue or 740 Park Avenue, while apartments over ten million dollars have large scaled rooms, higher ceilings, wider exposures to the avenue, and fewer occupants. Frequently the most valuable apartments are occupied by two people; families do not want them or cannot yet afford them. Ms. Guthrie indicates that buyers in this ultra-luxury market typically know what they are looking for, are not pressured to move, and are willing to wait until they find exactly what they want.

The following discussion thus meanders between our own research, above five million dollars, and the perspectives of brokers, who discussed different types of apartments, from three and four million, to seven, ten and 45 million dollars. Showing these varying measures illustrates the process by which our own definition was contradicted and enlarged. Even the "top of the market" is a segmented and varied phenomenon.

## The Size of This Market

For our own research, we relied on the generous assistance of Donna Olshan, at Olshan Realty in New York. Together, we determined that from January 1, 2003 to May 28, 2003, 260 apartments were listed or updated at $5,000,000 or more. Among these, 132 units were cooperatives, while 128 were condominiums, roughly equal numbers despite the much smaller overall size of the condominium market.

The number of listings, however, does not indicate the number of sales or closings. Kirk Henckels, at Stribling Private Brokerage, monitors co-op transactions for his own research and writing, and indicates that as of August 1st, he had counted approximately 47 co-op closings, at over four million dollars, since the beginning of 2003. Some of these were negotiated in 2002. He also estimates that there were 34 additional accepted offers and signed contracts as of August 1st.

These figures may be compared with the 5,693 cooperative and 3,401 condominium sales (total 9,094) estimated to have closed in Manhattan, south of East 96th and West 116th Streets in 2002.[1] This comparison indicates that even in Manhattan, the most expensive apartments likely account for less than 2% of closings.

## Where Are These Apartments Located?

The market for apartments asking over five million dollars is primarily an Uptown market, with its cooperatives clustered on Fifth and Park Avenues, and on Central Park West. Its condominiums are more widely dispersed, with almost half located on the Upper East and West Sides and another 15% percent in or near the East 50's.

Of the 260 listings asking over five million dollars, 153 were located on either the Upper East Side or the Upper West Side, defined as the areas between 60th and 96th Streets. The Upper East Side had 101 of these listings, almost twice the number on the Upper West Side, which contained 52. Aside from some apartments located in the northern section of Midtown, the only other area with a significant number of these high-end apartments was Tribeca, with a mere fourteen listings. Thus the market at five million dollars or more is primarily an Uptown, Upper East Side, phenomenon.

A separate examination of the cooperative and condominium listings indicated that 113 (86%) of the cooperatives were located on the Upper East Side or Upper West Side, whereas 62 or 48% of the condominiums were located in these two districts. Midtown (15%) was the second most important area for condos, but primarily the northern and eastern sections of Midtown. Only 23 of the condos were Downtown, mostly in Soho, Greenwich Village and Tribeca.

A conversation with Mara Papasoff, at Brown Harris Stevens, also indicated that the Downtown market, asking over five million, is relatively small and primarily a condominium market. She found approximately 50 Downtown listings at five million dollars or more[2], although some had not been recently updated. She located no more than six Downtown apartments that had sold for over five million during the past year. All of them were penthouses. Only one was in a prewar cooperative building, on lower Fifth Avenue. The others were lofts in new condominium buildings

The market over five million is further concentrated by address, with 121 listings located on Fifth and Park Avenues and on Central Park West. These three prestigious north-south avenues accounted for 46% of this market. Although location in certain neighborhoods is significant to both markets, street, or rather avenue, address is much more important in the cooperative market. Ninety-two of the 132 co-ops listed were on Fifth, Park or Central Park West, but only twenty-nine of the 128 condominiums were located on these avenues. This means that 70% of the cooperative apartments were located on these avenues, while 77% of the condos were elsewhere.

While the cooperative listings clustered on the three most prestigious avenues, the condominium listings were located in fewer buildings. The cooperatives were in 85 buildings, while the condominiums were in only 54.

Sales — as opposed to listing — activity further narrows the location preferences of this market. Brokers who actively sell multi-million dollar apartments indicate that it is still primarily a cooperative market, and that sales activity is heavily weighted to Park and Fifth Avenues. One broker, reviewing eleven five-million dollar-plus apartment deals in his office, indicated that these were primarily on Park and Fifth, with some on Central Park West. Another counted seven new co-op deals over $15,000,000 in the past couple of months. Among these, three were on Park Avenue, three were on Fifth and one was on Central Park West. (There were fewer very grand apartments built on Central Park West, and many of the largest Central Park West apartments were created by combining two smaller units.) Meanwhile, cooperative apartments, in the most distinguished buildings on the East River, combine unique architecture with wonderful water views, but have a more limited clientele. These sell less expensively and more slowly.

Although there are a few condominium buildings on Park and Fifth, this year's activity for condominiums asking over five million dollars, has not focused on these avenues. Brokers indicate that there have been a number of sales negotiated at the AOL-Time Warner towers that are being built on Columbus Circle, with the rather grand address of One Central Park. A very reliable source confirms that a sale has been negotiated at over $45,000,000, which would be the highest price ever paid for an apartment in Manhattan. According to an article in RISMedia.com, the apartment has over 8,400 SF of un-improved interior square feet, with outdoor space and 25-foot curtain walls. The square foot price would set a record at over $5,300. We were advised that a second sale may be pending at $50,000,000, but were not able to find confirmation.

Since the condominium market includes the newest buildings, its locations are indicative of more recent trends. While the concentration of high-end market activity continues to be at traditional, prestigious, addresses, these addresses will nevertheless become less and less predominant as new condominium buildings are added to the market. Since condominiums are often in new locations, we should expect the relative prestige of new neighborhoods to increase over time. However, as these locations are generally more heterogeneous and these buildings more widely dispersed, the nature of luxury living may be increasingly be identified with buildings, rather than avenues.

## What Other Characteristics Define These Apartments?

In addition to location, we reviewed other characteristics of the multi-million dollar market including size, floor location, and condition.

Almost 80% of the apartments asking over five million dollars had seven rooms or more. 68% of these listings were on the tenth floor or higher. Where square footage was indicated, 77% measured at least 3,000 square feet and 32% at least 5,000 square feet.

Again the cooperative apartments varied from the condominiums. Of the ninety-one cooperative apartments located on Fifth, Park or Central Park West, 60 had nine or more rooms and only 18 were penthouses or on the ground floor. In the buildings on the east side, the apartments were scattered from the third floors to the floors in the upper teens with few exceptions. On the west side the range was larger because the avenue has a few taller cooperative buildings including 115 and 300 Central Park West.

Among the condominiums, where size was indicated, 69% indicated measurements of 3,500 square feet or more.[3] 29% were at 5,000 square feet or more. An important distinguishing feature of the condominium market is that the majority of its listings were on the twentieth floor or higher. While address is a less important factor in the condominium market, size is still an important factor, and view may be relatively more important to justifying asking prices of five million dollars or more.

A conversation with Hall Willkie, president of Brown Harris Stevens, indicates that the apartments that are selling are frequently those that have been renovated; that condition

is more and more important to buyers; and that the premium paid often exceeds the cost of the improvements. However, the premium is for apartments that have been “done” and “done well”. The renovations are neutral, attractive and in good taste.

Indeed, this writer has observed that, at any price level, the Uptown buyer wants renovations that are neutral but traditional, while the Downtown loft buyer is frequently interested in a taste that is both neutral and modernist.

Frederick Peters, president of Ashforth Warburg Associates, offered an example of the value of renovations, although at a price point somewhat below five million dollars. In the East 80s, at Madison Avenue, a seven room apartment in highly renovated condition sold in a day for $3,000,000. Also in the East 80s, but on Fifth Avenue, an eight room apartment in unrenovated “estate” condition, sold recently for $3,200,000 or $3,250,000, not much more. (Neither sale had yet closed.) The Fifth Avenue building is much more prestigious than the Madison Avenue example. The Fifth Avenue apartment is a bit larger and on a low floor facing Central Park. Yet the renovations to the lesser apartment were of nearly equal value in the market. Mr. Peters estimated that the value of a renovation can exceed its cost by as much as forty or fifty percent.

John Burger at Brown Harris Stevens pointed to a seven room apartment, on the eighth floor facing Central Park West, listed at $7,500,000. The apartment went to contract within five weeks of its offering, very likely setting a record for an apartment of its size in its building. It was in excellent condition.

The preference for renovated apartments does not necessarily apply to the most rarified segment of the market, where the apartments are more frequently unique, and where the means of the buyers perhaps lessens the relevance of renovation costs. Mr. Peters noted two Ashforth sales on Central Park West last year, a 5,000-plus square foot north penthouse, with a double-height living room and roof rights, that sold for $12,800,000, and a large corner apartment near the Museum of Natural History, that sold for over $10,000,000. Both prices cleared $2,000 per square foot, and neither apartment was renovated.

Another source noted a recently negoti-



ated sale in the East 70s on Park Avenue. The asking price was $25,000,000, for a 5,500 square duplex penthouse, with small terraces. The apartment is in fabulous condition, but outdated. The sale was apparently at $20,000,000 or $21,000,000 (+-$3,700/SF).

Mara Papasoff has indicated that the downtown market of apartments over five million dollars is almost exclusively a penthouse condominium market. (Editor's note: This does not necessarily indicate that these are renovated as some may have been delivered "raw".) However, these apartments are in newly renovated buildings, designed with new systems and services that appeal to wealthy buyers, a segment of the buying market that was not previously served by the "funky" loft cooperatives Downtown.

## Sales and Listing Activity

List and asking prices in the multi-million dollar markets are as high as $25,000,000 and even $45,000,000. Sale prices at the upper end of the market have exceeded $3,000 and even $5,000/SF. This is perhaps no surprise in a market where the highest prices are frequently reported. However, most of the $5,000,000-plus apartments are listed at much more modest square foot prices. The most common asking prices for cooperative apartments on Central Park West and Fifth Avenue are in the $2,000s per square foot. Some are asking under $2,000. On Park Avenue, most of the square foot asking prices are well under $2,000.

Steven James, Director of East Side Sales at Douglas Elliman, indicates that many cooperative and condominium apartments, listed for over $5,000,000, are on the market for months and months. He noted several listings that have been available for over a year. However, for those that his firm has sold, the average discount from the last asking price was only 6.8%, indicating that sellers have held relatively firm to their asking prices (or alternatively, that price reductions have been necessary to affect sales).

Caroline Guthrie indicated that while the market was slow until February or March, her firm has sold a number of apartments for over five million dollars this year. This was more than the number of apartments sold by her firm, at this level, as of July 2002. Nevertheless she indicated that listings have not been selling as rapidly as they had at the height of the market, in the spring of 2000. The market at this level is typically thin, meaning that there are relatively fewer buyers for any single apartment than for more "middle market" apartments. Nevertheless, the slower pace of sales indicated a normal market, at the top, rather than a weak one.

The most luxurious cooperatives have been selling. Among 38 $5,000,000-plus co-op listings that we researched in more detail in June and early July, we located eight for which contracts had been signed, and two for which sales had closed. At the Majestic, a contract was signed after less than five months on the market. In another, prime, tower building on Central Park West, a contract had been signed for an apartment listed at $10,000,000, but the contract had not yet received board approval. The apartment was first offered last December. In an historic mansion on Fifth Avenue, a contract was signed for an apartment asking $7,500,000. It was listed in August 2002. On Fifth Avenue in the East 70's, a full floor apartment, in perfect condition, went to contract within two months of its initial listing, in January. A terraced duplex on Fifth Avenue was listed in October and was in contract after last asking $8,900,000. On upper Fifth, an apartment was listed in April at $7,450,000, and a contract was signed after less than three months. Another, an eleven room, full-floor apartment was listed at $10,500,000 in January and closed in roughly June. At 555 Park, an apartment was listed in December 2001 and a contract was signed in May 2003. Further north on Park, a $5,600,000 apartment was listed in March, and a contract was signed in June. Finally, a terraced penthouse on upper Park was listed at $5,575,000 in July 2002, and it closed in June 2003.

While apartments have been selling at the upper end of the cooperative market, there were a significant number of listings available for more than six months (as of June or July 2003). Among the same 38 cooperative listings indicated, eleven were listed in 2002, 2001 and in one case 2000. Nine were listed this year. Among those with lengthy marketing periods is a fourteen room apartment on Central Park West that was listed at $18,000,000 in mid-2002; the price was reduced to $13,750,000 this March. It faces directly to Central Park and has been completely remodeled, with, among other amenities, a chef's kitchen and a small terrace at the rear, but it is contemporary in style and offers an indoor putting green. The list price is at about $1,960 per square foot. Another is a fourth floor apartment in a top building on Fifth Avenue, which was listed at $30,000,000 in May of last year. The apartment needs work but has over 90 feet facing the trees of Central Park. It was most recently asking $24,500,000, which is over $3,700 per square foot. It last sold at less than $20,000,000 in 2000.

Our research in the top end of the condominium market indicates that it is less active than the cooperative market. However, this may not be true in the brand new buildings.

At the new AOL Time Warner buildings, there has been at least one sale at over $45,000,000. According to a reliable source, the two towers of the complex will contain 201 residential apartments, and over 100 have been sold. Approximately 30% of these are priced at over $5 million dollars, and in this category about 45% of the apartments have been sold. Sales in this case are defined as contracts signed with buyers, with 25% deposits.

At One Beacon Court, a mixed-use building under construction on the old Alexander's site, there were six apartments available, in June 2003, at $4,950,000, or more. These apartments are located on the 46th, 50th and 53rd floors, with sizes ranging from 2,669 to 8,687 square feet and square foot prices from

$1,805 to $2,992. Some have Central Park views. The building will have a separate residential lobby.

According to the sales office, apartments priced at over $4,950,000 account for 40 to 50% of the 105 residential apartments. There are contracts for apartments in a variety of price ranges and sizes, including those asking over $4,950,000, but the sales office would not provide a number or a breakdown by price or size.

Of thirty-one, *primarily re-sale*, condominium listings, researched in some detail in June and July 2003, we were not able to locate any that had contracts or had sold, although offers were apparently being negotiated on a few. Among these re-sale listings were four apartments in one of Trump's high-rise condominiums. These were priced from $7,700,000 ($1,804/SF) for an apartment without park views, to a $15,000,000 ($3,341/SF) for a unit that faces directly over Central Park. The public record indicates that a third apartment, listed at $11,500,000 ($2,605/SF), sold previously, in 2002, for $12,917,500.

While the top of the market was quiet in late 2002 and early 2003, brokers indicate that it picked up substantially in the spring. Already mentioned are Kirk Henckels' estimates which compare 47 closings, over four million dollars, as of August 1, this year, to 34 contracts and accepted offers negotiated within the three or four months prior. Since pending sales reflected market activity within the prior 90 to 120 days, this number indicated a significant increase in ultra-luxury market activity

Mr. Henckels' six month figures also indicated some improvement over last year. While the total number of closed cooperative transactions, over $4 million was 51 in 2002 and a lesser 41 in 2003, the very high end market has "come back" this year. In the first six months of 2002 there were only four sales over $10 million, whereas there were eight in the first six months of 2003. Last year's highest priced transaction was at about $13,000,000, while in the first half of 2003, the highest price was $18,000,000. (Note also the recent pending transaction at about $20,000,000 – Editor's note.) Of the 34 pending transactions, as of August 1, 2003, five or six were for $10,000,000 or more. Mr. Henckels indicates that the 2002 total may not have exceeded the four transactions in the first half of the year.

Hall Willkie indicates that approximately 15% of his firm's newly negotiated transactions, in June, were for more than $5,000,000, a significant increase over a few months ago.

Opinions vary as to whether prices have been falling or stable at the top of the market. Caroline Guthrie indicates that individual transactions give differing indications of the direction of prices. A recent Park Avenue penthouse sale at over $20,000,000 would not likely have gone for more at the peak of the market, in 2000. However, a renovated Fifth Avenue duplex that sold for $18,000,000 in September 2000, might not sell at that price today. In her opinion, prices are nevertheless substantially higher than in 1998 or 1999.

Frederick Peters indicates that generally, prices have come down. In the five, six and seven million dollar range, prices have not dropped by more than 8 to 10%, relative to the peak of the market. However, at $9,000,000 or more, value depreciation has been higher — closer to 10% or 15%. There have been very few $20,000,000 to $25,000,000 cooperative sales since 2000. $10,000,000 or $12,000,000 sales were the highest priced in 2002. In 2003, the number of sales over $20,000,000 has not yet matched 2000's.

More than one broker indicated that cooperative boards slow the pace of sales more than the market. Boards may be even more worried about the potential financial problems of buyers than they were previously. In some cases extremely wealthy buyers, willing to pay cash for their apartments, have been turned-down by boards who doubt the stability of their income. In one example, this concern outweighed very strong social references.

## Remarks

The top of the Manhattan housing market receives an enormous amount of attention, but it is not a unified market. Indeed, it is widely segmented, with prices extending from several million, to over ten million, and as high as $20,000,000 or $45,000,000.

The choices that buyers make, when spending this type of money, are widely varied. Yet the weight of transactions follows observable patterns. The larger portion of this market is still a traditional, prewar cooperative market, with buyers choosing large apartments on Fifth and Park Avenues and Central Park West. A smaller, but still significant number of buyers choose condominium apartments, in new buildings, either Uptown or Downtown. It is here that the location and taste changes in this market are occurring.

In a mature market like New York's, existing, top-end residential buildings are likely to survive for many decades, even centuries. The traditional Uptown markets are not going away. However, they are enlarged by new buildings, in more heterogeneous locations, offering much wider choices, to the very rich, than were previously available.

[1] Douglas Elliman Manhattan Market Report, 1993-2002, 10-year sales trend analysis; Miller Samuel Inc.

[2] As of July 28, 2003

[3] Only 21 condos lacked a square footage measurement in the listing information. So of 107 apartments with known square footage, 33 measured less and 74 measured more than 3,500 square feet.

# Recycling Old Buildings:

A case for more residential use in the financial district

by Bryce MacDonald

## Introduction

Downtown's current ills lie in the origins of its original development and the vestiges of its old buildings. The modern central business district has bypassed Downtown Manhattan in favor of midtown. Lack of access and functional obsolescence are working against older office buildings downtown. However, Downtown's location is excellent for residential use and its old buildings possess many of the qualities of the finest residential structures of the 20th century. Creatively reusing old structures, positioning them as the highest quality residential apartments instead of sub-standard offices, and improving the remaining office stock are the keys to making Downtown vibrant again.

Downtown will never eclipse Midtown as an office district because of its restricted access and relatively small geographic size. Midtown has three times as much office space over an area more than ten times as large as downtown. However, as a residential district, Downtown has the raw materials to equal the finest residential districts Uptown. That transformation has already begun in the residential rental market. Residential development Downtown, especially conversions of older buildings, will accelerate in the coming years.

This article explores the origins of Downtown and its current malaise; the nature of old office buildings; why they don't work as offices and why they make wonderful apartments; the current market for housing Downtown; how some early conversion projects have fared and why; and finally, some predictions and recommendations for Downtown development.

## Downtown History

The southern tip of Manhattan was the first part of New York City to be settled. The natural harbor, well suited to the low draft ships of the day, and the easily defendable position were the selection criterion. Wall Street got its name because it was the northern boundary and the settlers erected a military fortification, a wall, to keep out hostile natives. Over the centuries there was a gradual expansion north.

From its earliest moments the area now known as the Financial District began a shift from physical trade to knowledge and information trade. Stock trading under a Buttonwood tree on Wall Street started in the late 1700s. An insurance district developed to the north around John Street. Trade in goods and services drove the New York economy. As transportation improved, New York continued to grow as a transportation hub and trading center. The specialized finance, trading, insurance, and shipping firms of Downtown prospered. By the dawn of the 20th Century, these firms had evolved into the FIRE sector — Finance, Insurance and Real Estate — that we know today.

The beginnings of Downtown's current problems were caused by geographic bad luck and an industrial age transportation innovation. The commuter railroads that permitted people to live in the suburbs outside Manhattan, and still work in the city, located their terminuses on the northern edge of the then settled city in what is now called Midtown. While many of the workers Downtown still lived in the City and could easily get to Downtown on ever improving subways and roads, developers catered to commuters from the suburbs who wanted a one seat commute. Thus the largest central business district in the world was created in Midtown Manhattan.

The next blow to Downtown office use was the technological and organizational change of the American office building. During the post World War II era, air conditioning and large firms became the norm. The former required high ceilings to hide the distribution ducts and the latter required very large buildings with efficient designs. The then twenty to fifty year old office buildings Downtown could not compete, nor was it economical to replace them.

Thus Downtown office use has two strikes against it: lack of access to the area and functional obsolescence of the existing buildings.

## Converting Offices to Apartments

From the 1890s until the early 1930s the city experienced a huge building wave driven by steel structural frames, elevators and global trade. There was a large wave of office building construction in Downtown Manhattan and a similar wave of residential construction Uptown. Many of those buildings are still in service. While the residential buildings from that era, such as the "classic" prewar apartments on Park Avenue, are generally prized for their design, the office buildings are woefully out of date for modern office uses. Many of the design elements of early office buildings that are undesirable in modern office buildings make them well suited to residential conversion. The design elements of 1920's office buildings are similar to those of the more desirable residential buildings of the same era. Luxury apartment buildings were perfected in the 1920s; office buildings continued to evolve.

## Obsolete Offices as Perfect Apartments?

What makes woefully outdated, pre-1930 office buildings so desirable for apartments?

Ceiling heights. In the days before air conditioning for offices, engineers and architects relied on natural convection and fans. Since heat rises, ceilings were elevated to 9 to 11 feet and vents were provided with transom windows over doors and double hung windows. The ceiling was the underside of the structural slab above. As office automation created more machines and more lights and people were introduced, offices grew hotter. By the late 1940s air conditioning had evolved enough to be economical to cool office workers (The technology was developed in the 1890s to cool industrial equipment, primarily looms for the garment industry, that needed a constant temperature to avoid jamming). Vendors pitched the productivity enhancing aspects of "tempered air" and employers demanded buildings with air conditioning. While some floor area was lost to machines, the main problem was the distribution ductwork. Unsightly ductwork was covered up with dropped ceilings, which doubled as a grid to mount lights on and as a "plenum" return – ducts are supply only and the space above the dropped ceiling acts as the return duct to the cooling units. Dropped ceilings required that the structural ceilings be 12 to 14 feet to accommodate a finished ceiling height of 8 to 9 feet under ductwork and beams. It was impossible to install air conditioning and dropped ceilings in many older office buildings and still have enough space to stand upright. As a result, many older office buildings have deficient and inefficient air conditioning – they use window units.

Residential apartments have far fewer generators of heat and thus do not need as much air conditioning. Unlike offices, where the majority of the heat is produced from within (modern office use generates so much heat that air conditioning is used year round), apartments primarily get unwanted heat from the outside. From an engineering perspective, it is ideal to put air conditioners next to the windows (where most of the heat enters) thus eliminating the need for ducting and dropped ceilings. Heat can be expelled via window-mounted or through-wall units thus eliminating the need for an expensive central cooling system. Finally, due to construction cost, modern residential ceiling heights are generally 8 to 9 feet. It is considered a luxury to have 9 to 11 foot ceilings in residential buildings.

Small floor plates. For a variety of reasons many older office buildings have relatively small floor plates. Small, oddly shaped blocks created by the original street layout Downtown (vs. the uptown rectangular grid) and a desire for natural light and ventilation contributed to shallow core depths and small floor plates in older office buildings. Many older buildings are tall and thin, to gain views and the resulting light and air, but sacrifice large floor plates. Other old buildings have many courtyards and light wells thus sacrificing layout even if they have large floors. While a relatively small floor plate of 8,000 square feet may not pose a problem for a small tenant, larger tenants do not want to be spread out over several floors and thus require a larger floor plate. Furthermore, the layout of the floor, the distance from the core elevators and stairs to the windows, will not be ideal for modern office use. Modern office buildings strive to have 40 to 45 foot “core depths” to accommodate, from outside in, perimeter windowed offices, cubicles, hallways and service/storage areas. Older office buildings often have long narrow floor plates (to maximize natural light and ventilation) that result in shallower core depths and inefficient office layouts.

Since very few apartments are more than 1,200 to 1,300 square feet a small floor plate is not an issue. The ideal core depth for apartments is considered 30-35 feet — any deeper and the rooms feel like bowling alleys. Finally, residential use still rewards an abundance of natural light and ventilation. In fact, residential building codes often require light and air.

Columns. Before the 1950s the technology did not exist to economically span more than 20 feet between columns. Steel beams were not up to the task and trusses were too high (to span 40 feet, a truss had to be 10 feet high), thus older buildings have more columns, typically on 16 to 20 foot grids. Modern office buildings routinely have 40 foot steel beams. Column free space is desirable in modern office layout because it accommodates open “bullpens” and trading floors as well as great flexibility in office layouts.

Since 40 foot rooms are not economical in all but the most luxurious apartments, and most residential rooms are 10 to 20 feet wide or long, it is relatively easier for a clever architect to “bury” the columns in the walls. In fact, most modern apartment houses are built with concrete instead of steel even though concrete floors can span only 15 to 20 feet because concrete structures allow more flexible design as well as eliminating the need for beams that protrude from the ceiling and have to be covered up. (Concrete is also arguably cheaper and faster to build than steel.)

Services. While it is relatively easy to retrofit electric, plumbing, telephone/data and ADA bathrooms into an older building, it often requires an expensive and time-consuming process — you have to gut the building and build a new building inside the old one, something akin to building a ship in a bottle. Ideally the building is vacant and there is a market for less than perfect office space — an unlikely combination of events. Accordingly, very few older office buildings undergo this process.

The process of installing all the services required for residential use is just as complex if not moreso given the large number of kitchens and bathrooms. But the market for the finished product is very different. In other words, there is little demand for less than perfect office space, but demand exists at all levels on the residential spectrum.

In summary, the same things that make Downtown's old office stock unsuitable for modern offices make it perfect for residential use: 9 to 11 foot ceilings, too short for offices but much better than the 8 to 9 foot height typical of modern residential construction; 25 to 35 foot core depths — ideal for apartments that need windows; and columns that are not problems because of room layout. Thus many of the problems with pre-World War II office buildings that can't be fixed are not a problem for residential use and some are in fact desirable. You can't raise the ceiling height or move the columns or elevators and stairs but you don't need to in a residential conversion. All the other things, like new electric service and plumbing, you have to do anyway regardless of the use.

## The Economics of Conversion

In the early to mid-1990s, Wall Street area office buildings languished with high vacancy and low rents. In 1995 the city announced zoning changes and incentives to convert office buildings into apartments. Within five years thousands of apartments were created. There had been some apartment buildings in the financial district since the late 1960s, but no one knew if large scale residential use would be viable on Wall Street. In 1996 three conversions were started: 45 Wall Street, 71 Broadway and 25 Exchange Place. The developers were hoping to achieve $25 rents ($/sf/year) and absorb the apartments within a year (Feathered Nest data). In 1997 when the apartments were completed, they rented for $35 in four months. It was clear that residential on Wall Street worked. They built it, people came and paid Uptown prices.

Between 1995 and 2000, 33 buildings with 3,400 apartments were built or converted in Downtown Manhattan. The majority of these buildings were conversions of existing structures. According to the Alliance for Downtown New York, 16 buildings with 1,880 units were under construction in 2000 and five more buildings with 600 units were planned.

So why did the market for Downtown apartments work? Because apartments made more money for their developers than offices. With the office market depressed and a chronic housing crisis it made sense economically.

## The Downtown Rental Housing Market

In January 2001 the Alliance for Downtown New York, Inc. commissioned a study of the residents of Downtown apartment buildings, especially conversions. They found that the majority of people living Downtown are what I call the drivers of New York economy, "the best and the brightest."

The survey, with more than 500 responses from seven recently converted buildings, revealed the following:

· Most residents are young: 43% under 30 and 88% under 45.

· They are in the upper range of income for the city:
 75% earn more than $90,000 per year
 25% earn more than $210,000 per year

· They work in the growing sectors of New York growth:
 37% FIRE
 15% High-tech
 13% Business Services
 10% Communications

· Less than half walk to work, which indicates that Downtown is a "legitimate housing option regardless of where residents work."

· Fewer than 10% have kids, although this is rising from previous surveys

What they like about living in converted buildings Downtown:

- High ceilings and lots of space;
- Rents similar to or slightly less than Uptown;
- Services in new buildings with landlords eager to please;
- Walk to work;
- Great transportation to other parts of City (an increasing percent work Uptown).

In their own words the residents said: "We have a bigger place than we could have gotten in most other parts of Manhattan," "High ceilings," "Huge windows," "Great views," "Lots of storage space," "It was newly redone, so it's clean and well-kept."

Even the tragic events of September 11, 2001, and the turmoil of the clean up afterwards, affected Downtown occupancy for less than one year.

*The New York Times* did a study in August 2002 of 27 residential buildings near the World Trade Center. Many of the residential buildings near Ground Zero had 100% vacancy – the government shut them down, and others that were not shut down experienced high vacancy as tenants left. However, within a few months of being allowed to reopen, most buildings were fully occupied and the area returned to a 4% average vacancy, about the same level as the rest of New York City.

## Rental Prices Downtown

Notwithstanding the early pioneers from the 1970s until the mid-1990s there were very few apartments Downtown. The question everyone asked was: "Will people live Downtown? And if they do, what rent will they be willing to pay?" As we saw from the examples of the three buildings mentioned in the previous section, renters did choose to live Downtown and at higher rents than expected.

"A one bedroom is a one bedroom is a one bedroom" has become the thinking for residential development and pricing in Manhattan south of 96th Street. Rents peaked in 2000 when the average rent of a one bedroom hit $3,100. It doesn't seem to matter if a building is in Chelsea, Yorkville or the East Village; the prices are the same. "Acceptable" places to live in Manhattan have become a commodity. Location choices within the market have become a mode of self-expression. The choice of Manhattan neighborhood has become like that of cars: "Do I feel like a Chevy or a Ford?" Or, more realistically given the prices: a Mercedes, BMW or Lexus? Do I want to be south of 59th Street, 14th Street, Canal, Houston, Chambers or East or West? The point is that the rental market, certainly in the large volume studio and one bedroom segment, has really become a commodity. Even two and three bedroom apartments at the lower end have become commodities.

## Rents and Building Prices

In light of the above market data and development experience, it should be no surprise that the same holds true in the Downtown residential market. In fact, once it was established in 1996 that apartment rents Downtown would be similar to those Uptown, the prices of buildings suitable for conversion more than doubled. In 1995, I looked at buying 17 John Street for about $50 per gross foot (it sold at that price and was converted into apartments). In 1998, my group purchased 48 Wall Street for $127 per foot. Recently, 63 Wall Street sold for $148 per square foot. All three required (or will require) a complete gut renovation and were delivered vacant or nearly vacant.

## $40 = $30?!?

Due to different measurement conventions, office rents and apartment rents are not directly comparable on a per square foot basis. In general an office building will have more "rentable area" while an apartment house of the same size will have significantly less because of "netting" out of common areas and other areas that are counted as rentable in office measurements.

In the example below, a 300,000 square foot building is analyzed as an office vs. residential renovation. In both cases the building is gutted to the core and shell and rebuilt. The cost to buy the building is not included.

While it is clear that an apartment house costs more to build, it will generate greater net income. The point at which the return on investment will be equal is interesting:

| | **Office** | **Apartments** |
|---|---|---|
| Gross square footage | 300,000 | 300,000 |
| Rentable square footage | 315,000 (5% add on) | 210,000 (30% loss factor) |
| Rent per square foot | $30 | $40 |
| Gross Income | $9,450,000 | $8,400,000 |
| Operating Expenses / Taxes ($15 per rentable square foot) | $4,725,000 | $3,150,000 |
| **Net Operating Income** | **$4,725,000** | **$5,250,000** |
| | | |
| **Cost to Build:** | | |
| Hard | $100 | $175 |
| Soft | $25 | $25 |
| Tenant Improvements | $45 | $0 |
| Commissions | $15 | $0 |
| Marketing | $0 | $5 |
| **Total** (per gross square foot): | **$185** | **$205** |
| **Gross Cost:** | **$55,500,000** | **$61,500,000** |
| **Return on Investment:** | **8.5%** | **8.5%** |
| | | Based on MacDonald & Cie data |

a $30 office rent produces the same return as a $40 apartment rent.

In the early to mid-1990s, Downtown office rents were in the low $20s and apartment rents Uptown were in the low to mid $40s (Cushman & Wakefield, Feathered Nest and MacDonald & Cie data). $40 per square foot for an apartment is a $2,500 monthly rent for a 750 square foot one bedroom. Given these figures, the incentives to convert old office buildings into apartments are clear. After 1997, when it became clear that renters would go Downtown and pay Uptown prices ($40/sf) conversions took off.

## Downtown Housing Market Predictions

With the exception of Battery Park City, there are very few apartments for sale Downtown. So few, in fact, that until recently there have been no market statistics available for condos or co-ops outside of Battery Park City. Given the cost to own vs. rent (and current low interest rates) condo projects will be developed. The reason is simple: condos sell for more than rentals; a developer can make more money. Apartment purchasers typically purchase units to live in at a lower implied cap rate (the imputed rent less the common charges and taxes divided by the purchase price) than investors. The reasons are simple: the tax advantages and, hopefully, appreciation.

A condo project is different from a rental. The unit sizes, finishes and marketing are all different. The "style" and program of the building matter dramatically. Lofts work in Tribeca and prewar designs work on Park Avenue, but no one can say what Downtown condos should be like. For this reason, it will be very difficult to get financing for a condo project since no one can point to a successful project and say: "that is the Wall Street product that works."

I see no reason why old office buildings suitable for conversion into residential apartments will not sell at prices similar to buildings uptown. If rents Downtown and Uptown are similar, why shouldn't the prices for the raw material be too? This has begun to happen. The market for Downtown rentals was established in the late 1990s and the prices of buildings doubled and tripled in the ten year period from 1992 to 2002.

The question yet to be answered is when the market for condominiums will develop. Note: not if, but when. Downtown condos will never reach the prices of Park Avenue but there is no reason why they should not match Chelsea, Yorkville or even Soho. The rental market must mature and develop more depth. Renters are typically not buyers, but the same things that make rental apartments and neighborhoods attractive also appeal to buyers. However, given the investment, buyers move much more slowly than renters.

## Downtown Office Use

As discussed above, Downtown office use has two strikes against it: lack of access from the suburbs and lack of Class "A" product. Prior to September 11, 2001 Class "A" office rents did not justify new construction. Since 9/11 demand has fallen sharply and prices fell even as supply was reduced. Renovating old office stock will only perpetuate the problem since old buildings will never be able to attract the best tenants in the industries that create the most jobs, growth and income. Diversity of office stock is important, small firms need to be close to large firms, but right now the problem is the lack of Class "A" product and access.

It appears that one of the good things to come out of the 9/11 tragedy is that transportation is being revisited after generations of neglect. An overlooked aspect of Downtown mass transportation is that it is among the best in the nation for residential use. Residents Downtown can get to anywhere else in the City faster and have more options than any other area in the City. The subway map shows almost all of the subway lines converging in Downtown Manhattan. This should not be surprising given that the subways were built before automobiles and the suburbs were popular — they were built to serve New York City's original commercial business district. Downtown's lack of access from the suburbs is a 20th century problem that might be turned into a 21st century advantage by having more residential use Downtown.

If class "A" office rents are not high enough to justify new construction, then the solution is to raise class "A" office rents. Reducing the supply of competing buildings will eventually have an effect on the supply and demand equation of Downtown office pricing. Removing functionally obsolete class "B" and "C" stock and converting it to residential use is a logical part of this process. Increased residential population will drive services and amenities development — restaurants and culture — that will make Class "A" offices more valuable due to increased access. Luxury residential and class "A" offices are complementary uses.

When the Downtown office market eventually improves — most observers say it is only a matter of time before prospective tenants can no longer afford to ignore the 50% price differential between Midtown and Downtown — a problem will repeat itself. In the early 1990s, office rents were depressed and it made economic sense to convert offices into apartments. But then the office market improved and office buildings, even obsolete ones, were economically viable. In 1998 my group planned to convert 48 Wall into apartments. In late 1999 we changed plans and kept it as an office building because it was so much more attractive economically at the rents then in effect (see the comparison of $30 vs. $40 rents). We justified our decision mostly on the economics, but also with the fact that the apartments planned for the lower half of the building would have been "challenged" in the market due to their very deep core depths (the building sets back halfway up to a perfect residential floor plate). Several other buildings did the same thing, most notably 10 Hanover Square which tore out half built apartments when Goldman Sachs said they wanted the entire building for offices. While this made short-term sense, it was a flawed long-term strategy. Indeed, Goldman Sacks is terminating their lease at 10 Hanover Square and the building owner plans to convert the building.

The problem with so much of the Downtown building stock is that is it not clear whether it should be office or residential and thus tends to flip flop depending on the market conditions (e.g., 48 Wall Street and 10 Hanover Square). Until the market is strong enough to justify tearing down obsolete old buildings and replacing them with modern structures, Downtown will continue to suffer with outdated offices. Recycling old buildings is a short-term strategy, ultimately most of the structures downtown must be replaced if Downtown is to prosper long-term.

## Conclusions

Office rents will rebound as tenants look for space and can't ignore the price difference between Midtown and Downtown. Many old office buildings will be converted to residential use in the meantime. Improved transportation will have a positive effect — when it is completed. The future of Downtown is mixed use, office and residential with local services. A community will emerge that will demand, and get, improved access to transportation, retail, amenities and, eventually, more modern offices and apartments. We have already seen that Downtown apartments will rent for Uptown prices. Condos will emerge, and succeed, as soon as the market recognizes the quality of the neighborhood that has emerged since the wave of conversions started in 1996.

Two of the largest current developments Uptown, Related's new building at

Columbus Circle and Vornado's new building at 59th Street on Lexington Avenue, epitomize the sort of mixed-use development that will occur once the market emerges. In fact, there is already talk by a developer, Trevor Davis, about building such a building Downtown. Davis plans to build a $680 million, 1.3-million-square-foot tower, combining retail shops with offices and apartments on top. All of this would be on top of the new Fulton Street transit hub ("Tall Tower Near Ground Zero Is Proposed" *New York Times,* November 12, 2002).

Downtown will emerge as a fashionable neighborhood and regain its place as a strong office market. As a central business district, it will never overtake Midtown, which is three times larger, but it will outperform many other residential areas in New York. Offices and apartments together will create a critical mass of consumers and service providers will respond. An upward spiral of improvements in access will ensue. The short-term success will depend on how fast developers can respond and deliver the apartments or offices needed and thus start the upward movement. That, of course, depends on the overall Manhattan market.

The overall recovery of Downtown and its long-term prospects as a world class central business district and luxury housing market depend on the renovation of old buildings or their replacement with modern structures. Recycling old office buildings into residential apartments is one way to help the office market by reducing the supply and thus encouraging the construction of modern office buildings. Furthermore, luxury residential use will help develop the neighborhood by providing a larger market for services and amenities. Recycling old buildings may not be the best long term solution given capitalism's forces of "creative destruction," but it is a viable strategy for creating more housing and improving the overall area thus making the remaining office buildings more valuable.

## How the Government Can Help Downtown

Old buildings need to be renovated to meet modern office or residential requirements. Existing government incentives recognize that there is a market for conversions, but the existing programs don't do enough to accelerate the conversion process. The problem of renovating buildings while they are occupied, even partially, is that it is too disruptive to existing tenants and too expensive to wait for all the leases to expire. Value is created by having buildings vacant quickly and thus available for renovation/conversion. A vacant building and a market for less than perfect office space is an unlikely combination of events. The existing incentives don't help a half full building convert or renovate. Accordingly, very few older office buildings undergo this process. The government, through the power of condemnation, can bring about the unlikely combination of a vacant building and a strong market.

Process:

- City/State identifies eligible buildings based on location (Downtown) and building type (functionally obsolete — see description). Ideally selecting Downtown properties suitable for residential conversion (or demolition and redevelopment?) City/State notifies building owners.
- Building owners volunteer to participate in program (Screening process?)
- Tenants in selected building notified by landlord/City of intent to relocate and options/incentives (existing programs for Downtown/WTC)
- Tenants voluntarily accept relocation with or without assistance from brokers (paid by new landlord) at rent guaranteed to be equal or less than their present rent (difference made up by old landlord as compensation for condemnation — likely to be very low or none given current market conditions. Should not be paid for by city because of possible abuse.)
- Reluctant tenants evicted after leases canceled by City condemnation (cut off for eligibility in relocation program?)
- Building owner renovates now vacant building (owner must commit to this to participate in program) or sells to a new developer who renovates within a fixed number of months
- New residential tenants move in (existing incentive programs) paying market rate rents. Commercial portions of building (if any) rented to new office tenants at market rents (existing incentive programs).

End Results/Benefits:

- Expanded housing stock Downtown
- Upgraded office stock Downtown
- Lower vacancy in remaining commercial office buildings due to relocated office tenants
- Higher tax revenues for City in near term from more fully occupied office buildings and long term from new residential buildings (after existing 10 year tax abatement for converting from commercial to residential)
- Enhanced Downtown community from greater office occupancy and more residential occupancy — leads to greater services and better quality of life for all.

The City could implement this plan with little to no cost, except administration. It requires no special governmental powers or legislation — condemnation is well-established. It would work in conjunction with other existing Downtown programs. The problems of renovating a partially occupied building can be easily solved by very minor government intervention and the current market conditions make relocation of office a win/win for all concerned.

# Urban Growth and Character

A Comparison of Washington, DC and New York

by Gail Shaffer

*In memory of our beloved Senator Daniel Patrick Moynihan,*
*great urban thinker whose love of both cities informed his lifelong stewardship*

## Introduction: A Tale of Two Cities

Washington, DC and New York City, both so central to our national identity, exert a unique hold on the American imagination. While there is much to admire in each city, the focus herein is specifically their character as urban centers. In discerning the defining qualities integral to the very essence of urban living, diversity emerges as a key factor. Without diversity — either ethnic or economic, or both — somehow the mere facts of population density and architectural mass fail to create a genuinely metropolitan community.

New York evolved naturally as an organic city, founded by Dutch entrepreneurs, precursors of today's global capitalism. They created a thriving commercial seaport distinctively secular and polyglot in character, compared to its Atlantic neighbors. Though succeeded by many other cultural influences, the unmistakable imprimatur of these pragmatic Dutch founders remains a lasting influence on the city's development.

Washington's history as the ultimate planned city, created artificially as the seat of political power, has given it a decidedly different character. It is a visual banquet of classical architecture and extravagant greenery, among the loveliest of American cities. Planning has blessed it with both harmony of design and relative efficiency of infrastructure.

Yet Washington's unique genesis is a legacy of mixed blessings that both enhance and plague our nation's capital as an urban center. Among the negative *quid pro quos,* limited municipal sovereignty and the disenfranchisement of its citizens present unique challenges to Washington. While New York's diversity is its defining feature, Washington lacks this key ingredient, due to unique congenital factors that, like a civic DNA, contribute to not only its persistent ethnic segregation but, even more significantly, its singular economic focus.

Its more homogeneous character imbues Washington with a more suburban culture. Despite its potential, as the capital of the world's superpower, to be a dynamic urban center, significant impediments seem to seal its fate as a city that, while embodying political greatness, is not destined for urban greatness.

## Washington's Origins as the Political Capital

New York City became the capital of the fledgling United States of America in 1783. Its status as the nation's political capital was to be short-lived.

The locus of federal government shifted first to Philadelphia, and ultimately to the Potomac, in a famed compromise engineered by New York's Alexander Hamilton and Virginia's Thomas Jefferson: if the Southern states would acquiesce in federal assumption of the substantial war debts of the Northern states, the North would agree to relocate the capital to the South.

Washington, DC was thus born as the

new bureaucratic capital in 1800, a diamond-shaped area of swampland carved out from Maryland and Virginia. The new "District" of Columbia, purposely designated neither state nor city, inherited the seeds of an eternal dilemma.

## L'Enfant's Planned City: a Blank Slate

Launching a new city *tabla rasa* as the seat of government has few historic parallels: St. Petersburg of 18th century Russia and Brasilia in the 20th century present exemplars.

President Washington envisioned "a city, though not as large as London, yet with a magnitude inferior to few others in Europe." In 1790, he selected a young French engineer, Major Pierre Charles L'Enfant, who had served the republic in the Revolution, to design the new capital.

The advantages of planning a city from its genesis, with visionary planners and architects having *carte blanche* to imagine a city without cumbersome obstacles, are considerable. Washington's harmony of design reflects an essentially European city, designed by a Frenchman, inspired by Paris and the royal park of Versailles.

L'Enfant's grand design boasts sweeping boulevards, expansive parks, classic architecture and majestic monuments, with geometric templates unifying the major circular hubs. The Mall in its grandeur is our nation's Champs Elysées, the monuments our modern Parthenon.

The lofty ideals embodied in our Constitution find their incarnation here, with the balance of government reflected in the balance of the city's design. The iconic monuments punctuating the city's landscape at strategic points manifest the city's *raison d'etre.* The splendid dome of the Capitol dominates its skyline, in powerful symbolism reinforced by law, which prohibits any new structure from surpassing it in height. The city's neoclassical architecture embodies the noble Enlightenment ideals of America's creation, and her destiny as the shining *City on a Hill.*

Planning also reaps benefits in efficiency. Unlike most other urban areas where established usage dictates design, in Washington's planned configuration, function reflects design.

> New York's growth, a history of constant change, proceeded largely unfettered with a capitalist hand on the throttle.

Infrastructure — transportation, sewers, utilities and other essential components of urban living — can be better maximized, and more easily adapted to the evolutions of time and technology, with a planned design.

## New York's Organic Evolution as a "Natural" City

The narrow streets of the original Nieuew Amsterdam, south of Wall Street (then a fortification defining the city's perimeter), preserve the pattern of early footpaths. North of the wall was open farmland and forest.

As later development spread northward, rudimentary planning was introduced with the Commissioner's Plan of 1811. The area north of 14th Street was laid out in a rectilinear street grid: straight avenues north to south, streets east to west, with the major artery of Broadway slicing across the grid in its bold diagonal.

Unlike Washington, New York had no

comprehensive design. Born on the waterfront, New York grew, for good or ill, in a much less preordained fashion. While the street grid provided a convenient skeleton for moving the growth uptown, construction of the city's muscle and flesh were to be given substantially free rein. New York's growth, a history of constant change, proceeded largely unfettered with a capitalist hand on the throttle.

Planning came to New York not in its embryonic stages as in Washington, but in sporadic bursts: the visionary Central Park project in the mid-nineteenth century; Robert Moses' bold imprimatur in the early twentieth century; the byzantine regulatory labyrinth of the late twentieth century. In its eternal quest for the new, New York has often made mistakes later regretted (the destruction of majestic Penn Station being a tragic example). The embrace of planning was thus a belated chapter in our urban history, largely a reaction to municipal excesses and missed opportunities of New York's past development.

## Urban Green Space as a Dividend of Planning

L'Enfant's plan graced Washington with glorious parks, a crown jewel of the city. From the majesty of the Mall to the leafy serenity of Lafayette Park to the pocket parks squeezed into triangular intersections, Washington has one of the highest ratios of green space per capita among American cities.

New York, in contrast, has one of the lowest ratios of green space. Central Park, in addition to its natural beauty, functions as the lungs of the island. The paucity of major green space in Manhattan is testament to New York's paramount quest for financial prominence: every available square foot of real estate that could be developed in the great entrepreneurial explosion of the city was maximized, with amenities such as parks a secondary priority.

The enviable abundance of green space in other cities (Philadelphia, Minneapolis, San Francisco, New Orleans, Boston) reminds New Yorkers of this lacuna in our own cherished urban landscape. The parks we do have are viscerally treasured. From the masterpieces of Olmstead and Vaux to the community gardens nurtured on vacant lots, these green spaces are zealously defended by advocates who cherish the tiny piece of Nature that graces their corner of this teeming city.

## Beyond Physical Characteristics: The "Soul" of a City

As the ultimate planned city, Washington far surpasses New York in its grand urban design, its neoclassical architecture, and its extravagant green space.

New York has an idiosyncratic beauty of its own. In its vertical growth defying the laws of gravity, in the splendor of its skyline sparkling at night, in the rivers and bridges connecting its boroughs and in discrete gems of iconic modern architecture, there is visually much to cherish here.

Yet, if one is looking strictly through the prism of aesthetics, New York is a complex amalgam of the gritty and the pretty. New York, for good or ill, has never aspired to be a postcard-perfect confection; it is a living, working city gateway to America, welcoming all the world but greeting it on its own terms, warts and all .

Washington presents a more pristine facade, classically elegant, immaculately groomed and dressed for company, always ready to pose for the tourist snapshot with the perfect background.

Yet, just as an individual cannot be assessed strictly by physical attributes, so too a city has a soul. Certain animating qualities that transcend the mere physical are equally important elements of urban greatness.

## Political Disenfranchisement of Washington

There are decidedly negative political issues flowing from Washington's origins. Denied local sovereignty, its people disenfranchised by the Constitution, it is a city deprived of the opportunity to determine its own destiny.

The Constitution reserved to the federal Congress the power "to exercise exclusive legislation in all cases whatsoever over such District." A city was chartered in 1802 (rechartered in 1871 to incorporate Georgetown as part of the District). Though various iterations of municipal government have ensued (in recent years, a locally elected mayor and council), the federal government maintains a tight rein on the capital city's governance.

Congressional members come to the capital as transient residents, with no intent to make the city their home and little stake in its future. Their attitude toward the new home they presume to govern runs the gamut from benign indifference to good intentions to outright hostility.

The micromanagement of Washington by Congress makes the city a pawn in the punitive partisan wars waged on Capitol Hill. Disconnected from the city itself, these solons make decisions affecting its future in intimate and intricate ways, with profound long-term consequences for the city and its residents.

## The Great Paradox

Herein lies a troubling paradox. Our vision of our nation is that of the shining *City on a Hill*, yet our own capital city on *The Hill* is a decidedly undemocratic island of disempowered citizens.

Alone among American communities, Washington's citizens have no vote in Congress; by choosing to live in the District, they also sacrifice their local self-governance. Although Congress cedes measures of "home rule" to the city, by constitutional decree Washington is eternally relegated to the role of supplicant before a Congress that reflects the fluctuating mood swings of the national political pendulum.

Washington's disenfranchisement is a political hot potato unlikely to change with time, requiring a constitutional amendment, a Sisyphian process crafted by the Founders. It necessitates a two-thirds majority in both houses of Congress in two consecutive sessions, as well as ratification by the legislatures of three-quarters of the states.

The partisan obstacles are daunting. Washington's current demographic profile isolates the poor in an urban core, with affluent professionals primarily in the suburbs. Without creative policies on the horizon geared toward diversification — either redevelopment incentives or (as suggested by Dr. Howard Gillette of Rutgers University) a simple political expansion of the District's boundaries to encompass adjacent suburbs within the Beltway — this perennial problem persists. Were such diversity enhanced, a viable two-party system could result, making support for enfranchising the District's residents more than an impossible dream.

## Burdens and Benefits Unique to the Capital City

Washington as the national capital shoulders a unique fiscal burden. The prevalence of tax-exempt land owned by government and the non-profit sector, as well as a multitude of international embassies, cumulatively removes a substantial slice of DC's real estate from the municipal tax base.

This concentration of government and non-profit institutions is a double-edged sword, for the city also benefits in other ways. Thousands of federal jobs fuel its economy. The federal government as its local core industry enjoys an enviable stability, giving Washington relative immunity from overall economic fluctuations.

In addition, Washington benefits from federal subsidies including many nationally endowed cultural institutions, federal security forces complementing the city's police force, parks maintained by the federal government and other amenities. Its visibility in the media spotlight is the envy of any city's tourism program.

## Washington as the Ultimate "Company Town"

Washington, unlike other world capitals, is the quintessence of the"company town," with government eclipsing all else as the singular focus of economic and social life.

In our modern world, the federal government has evolved into a behemoth that the founding fathers could not have imagined, employing the majority of the workforce in Washington and its environs. In addition, a parallel industry of myriad lobbyists — for both private-sector interests and non-profit institutions — is in the capital to maximize its influence on the governmental process.

The hospitality sector, retail, transportation and a host of support services also depend primarily on government. The vital local tourist industry is integrally linked to the city as our national political arena. The academic sector attracts students drawn to the political aura of Washington. The media sector gravitates to the capital as the dazzling mecca of public policy. Washington's economy is inseparable from its role as the nation's political capital.

## New York's Dutch Roots: Key to its Diversity

New York's diversity flows from its own early history, the very antithesis of Washington's planned origins. The city was founded by the Dutch, renowned for their entrepreneurial acumen and their pragmatism.

While many international cultures would contribute over time to shaping the city, the founding Dutch imprimatur was significant to the unique urban character of New York.

New York's Dutch influence is best apprehended in contrast with the development of other colonies in the hemisphere. The impetus for settlement of the southern colonies was primarily agrarian. In the warmer climes of Virginia, Georgia and the Carolinas, immigrants seeking the opportunity to farm the land developed farms and plantations. Georgia also became an involuntary landing place for Europe's prison outcasts.

Religion was the primary driving force elsewhere. New England was settled initially by Puritans, Maryland became a refuge for Roman Catholics and Pennsylvania attracted diverse sects such as the Quakers. The Spanish, French and Portuguese, while also seeking riches, consistently brought missionaries to the Americas to convert the natives to Catholicism.

Notably, the Dutch were already a more tolerant society than other colonial powers. The Puritan "pilgrims" whose journey brought them to the Massachusetts Bay Colony had first sailed to Holland, finding haven there from persecution in England.

The New York experience was unique in the Americas. The Dutch, more interested in trade than in conquest by Bibles or guns, founded New Amsterdam as a trade center. Foreshadowing New York's destiny as a commercial hub, the Art of the Deal began with Peter Minuit's purchase of Manhattan from the native Manhatta tribe. In their entrepreneurial drive, the Dutch precursors of today's global capitalism welcomed all comers, from all cultures. Early accounts already describe New Amsterdam as a polyglot cultural mélange. Its early character as a cosmopolitan nexus of commercial activity was a harbinger of things to come.

## Geography as Destiny

New York's geography, as much as its unique Dutch mercantile roots, destined the city to be a maritime commercial center. Its strategic location and its distinctive culture contributed to cutting edge breakthroughs, including development of the Erie Canal and Fulton's steamboat, transformative innovations that ushered in a new age of commerce.

The innovative atmosphere fostered by New York's tolerant culture would be a consistent hallmark, making the city more cosmopolitan, dynamic and open to new ideas than its counterparts. Economically and ethnically diverse from the outset, and exquisitely positioned by geography, New York was suited to its destiny as the gateway to immigration, the primary defining experience shaping this metropolis.

## New York's Diversity and Washington's Homogeneity

The contrast between New York's mosaic and Washington's singular focus on government is the most salient feature informing the divergent self-images of these cities.

Washington, conscious of its lofty stature as the seat of government, prides itself on its laser focus. New York cherishes its aura as the Big Apple, pinnacle of success for every endeavor under the sun. New Yorkers view their city as the capital of commerce and culture, of finance and fashion, and more.

New Yorkers see their city as the center of the news and of the new, trendsetter and arbiter of sophistication. Whereas Washington is the guardian of revered tradition, New York is the ultimate work in progress, constantly reinventing itself, ever pushing the envelope of innovation.

New Yorkers are wont to view Washington as a relatively provincial place, sedately quaint, conservatively conformist. Conversely, Washingtonians perceive New York as unlivable with its canyons of concrete, its frenetic pace and its impossible congestion.

New York grew vertically on its tiny island, defying gravity with towering skyscrapers of steel. Washington, a graceful horizontal city, prides itself on its classical architecture, built to more human scale, inspiring without humbling its beholders.

As New York's self-image is one of unabashed *chutzpah,* Washington's is imbued with a dignity befitting the capital. Washingtonians are proud of their city as both the guardian of our history and the center of history in the making. There is a prevailing sense of the city as the North Star of all that happens of national and international significance.

There is, of course, a negative side to every such self-conceit. While New Yorkers are often perceived as arrogant and egocentric, the Beltway syndrome is Washington's own version of insular superiority. Perhaps no two cities in America inspire such schizophrenic reactions among their fellow Americans, each in its own way provoking both admiration and exasperation.

## Washington's Geography and Lifestyle: A Southern City

Washington too has been shaped by its geographic inheritance. Inland from the coast, Washington, unlike nearby Baltimore, was never primarily defined as a port city.

In geography, climate and culture, Washington is also a Southern city, graced with magnolia trees and withering summer heat.

It is also a Southern city in other less benign aspects. Until the Truman era in the mid-twentieth century, Washington was a city of segregated restrooms, restaurants, hotels and drinking fountains. The legacy of its conservative Southern roots impacts today's city for good and for ill, from its gracious demeanor to its persistent residential segregation.

## Workplace Integration, Residential Segregation

This lack of ethnic diversity, in Washington's residential neighborhoods, contrasts with New York's ethnic mosaic. New York, particularly in the outer boroughs, still has neighborhoods that remain segregated, economically as well as racially. Nor can one ignore episodes of racial tension, past and present, that reveal a far from perfect harmony in New York. Nevertheless, overall the city is far more integrated. The sheer closeness of living, moving and working in a very concentrated area provides more interaction in normal everyday living.

Ironically, Washington has led the way in workforce integration. With the civil rights movement, education and employment opportunities (including professional positions) have been extended over time to a more diverse mix of workers. As with every progressive trend, the public sector leads the way. With more opportunities available in the public sector than the corporate world, many of the best and brightest women and minorities have gravitated to Washington where they find ample opportunities for advancement.

Professional positions both in Congress and the executive branch have become more diversified. This creates the phenomenon of a highly integrated workforce in the capital, interacting professionally throughout the workday, yet distinctly segregated residentially.

## Washington's Suburban Character

John F. Kennedy described Washington as "that city of Northern charm and Southern efficiency".

Washington has the potential to be a vibrant urban center, with its multitude of international embassies and its starring role on the world stage. It boasts a myriad of highly sophisticated residents from the media, academia and think-tanks, in addition to the policymakers and the diplomatic community who are the city's lifeblood. Yet unlike many other major capitals, it has never become a dynamic, world class metropolitan center. Notwithstanding its geopolitical primacy, Washington retains the aura of a charming but fairly provincial city.

Experiencing Washington after rush-hour disabuses one of the notions that this major capital is a major city. During the day, thousands of commuters create the ephemeral aura of a city. After the exodus to the suburbs of Maryland and Virginia, the buildings remain, but the streets are virtually empty of human activity, except for a few discrete enclaves of overt urban activity (Georgetown's M Street, Dupont Circle and Adams-Morgan). Washington's nightlife is largely invisible, in intimate dinner parties in private homes.

Manhattan is the city that never sleeps. Its social life is in its public venues, filling streets and theaters and restaurants. Many other world cities (Shanghai, Barcelona, Paris, Rio, Amsterdam, London, Buenos Aires) and other American cities (New Orleans, Chicago, San Antonio, Miami, Seattle) have a lively nightlife. In these cities there is a rhythm of urban activity beyond the hours of the workday, evidencing a city where people are living as well as working.

The lack of such an urban spirit seems curiously lacking in our nation's capital. The overarching factor distinguishing Washington from New York is that Washington is eclipsed by and subsumed in a fundamentally suburban culture with suburban values.

## America's Anti-Urban Tradition

One reason for this is the traditional anti-urban bias imbedded in our American culture, which finds its ultimate manifestation here.

The mythology of the frontier experience is central to the American psyche. The self-made man, forging a new society unburdened by the class distinctions and effete values of Europe, epitomized the noble Enlightenment ideals of natural man. This new paradigm rejected the Old World, whose evils were most viscerally apprehended in its cities, with their royal courts and cabals, corruption and artifice, and stifling class hierarchies.

### Micromanagement by an Anti-Urban Congress Strengthens Suburban Culture

A suspicion, not only of urban centers, but also of central government, imbues our values. In Washington these dual negative threads intersect with the city's lack of sovereign power to create the perfect storm undermining Washington's full potential as a city. As the one city lacking home rule, it is the canvas upon which Congress can visit its vision, re-engineering all that is inherently suspect about cities. The Congressman from East Podunk is thus empowered to mitigate prodigal urban life with heartland virtues.

The anti-urban bias of many of those who come to Washington, as elected officials or staff, affects where they live as well as how they govern. They typically avoid living in the District, settling in the surrounding suburbs with their familiar ambiance and values, and enrolling their children in suburban or private schools.

This contributes significantly to the irony that this world capital never realizes its potential as a thriving urban center. Were these federal employees to reside in the District, they would transform its complexion and its dynamism. Demographically, they include many professionals, ethnically diverse, highly educated and relatively affluent. Their presence in the city would contribute to an aura of urban vitality, and sustain the social venues and cultural events that characterize a vibrant urban center.

They would also diversify the socioeconomic base of Washington's neighborhoods. Since a majority of government professionals are white, their choice to move to Washington's suburbs leaves an urban core of predominantly non-white, and predominantly lower-income, workers in the District. The salient exception is Northwest DC, affluent and primarily white, an oasis of suburbia within the District limits.

New York also has a multitude of suburban commuters; yet there is a thriving urban residential population that includes many middle- and upper-class whites — professionals and artists as well as working class — who choose to make the city their home.

> The overarching factor distinguishing Washington from New York is that Washington is eclipsed by and subsumed in a fundamentally suburban culture with suburban values.

### Diversity as a *Sine Qua Non* of Urban Life

The central issue of diversity, at the heart of the differences in these two cities, emerges as a key element in defining the essence of a truly urban community. To the extent that diversity may be critical to an authentically urban experience, this missing ingredient deprives Washington of a truly urban character.

The kaleidoscopic diversity of New York is its defining spirit. A cultural mosaic of every culture and language imaginable, it remains the nation's gateway. This cultural diversity is missing in Washington and unlikely to develop, despite its potential. The political factors of disenfranchisement and lack of home rule, as well as the suburban preferences of the professionals who gravitate there, combine to inevitably perpetuate the city's legacy of segregation.

Likewise, the lack of economic diversity that is Washington's inescapable fate is a defining fact of life. Without diversity to complement its other strengths, Washington is a power center without being an urban center. The irony is that the unique focus on public policy, and the purposeful sense of mission that imbues Washington, offer much to admire. As it elevates this city as a locus of power, it also creates a nexus of intellectual resources that could potentially make Washington the ultimate grand *salon* of urbane cultural sophistication. Yet this very focus, so singular as the driving force of the city, robs it of a genuinely urban environment.

Even in other great cities that lack New York's ethnic diversity (Athens, Vienna, Beijing, Cairo, Madrid, Tokyo, Mexico City, Rome), there is nevertheless a typical diversity of economic activities — business, media, the arts, manufacturing, academia (with government, even in other capital cities, typically being but one sector of the economy) — that provides an urban molecular energy deriving from their very interaction.

## Washington as Political Experience; New York as Urban Experience

The quintessence of urban character has embraced many divergent visions. According to Kenneth Jackson, President of the New York Historical Society, "New York was created to be the ultimate city, and Washington to be the ultimate monument, and they both succeed brilliantly in setting the standard for their respective missions."

One's experience of each city depends on one's quest. Washington draws seekers of the ultimate political experience. It is the epicenter of public policy. Living in the capital and working on the *Hill*, one is inspired by history. For the visitor, too, there is much to love. Washington captivates with its monuments, museums and parks. However, beyond the civic theme park, it is difficult to categorize the living community as a truly urban experience.

It is the seekers of the ultimate urban experience who find their fulfillment in New York. Its electric energy and kaleidoscopic diversity make it the urban center *sui generis.* The very traits that make it a great economic and cultural engine make New York both challenging and magical. For residents and tourists alike, the city is, for all its foibles, the premiere metropolis of America.

From embryonic formation to the modern era, New York and Washington are as different as opposite poles in a magnetic field, each continuing to fascinate and dominate our culture. Their distinct origins and cultural influences have determined their character as cities. *Vive la différence.*

# Does Location Really Matter?

by Lawrence Sicular

This essay explores the concept of location, the definition of a "good" location, and existing hierarchies of location. The evident relationships between location and pricing are examined, as are more subtle relationships between location, price stability and price appreciation. Clearly "good" neighborhoods are the most highly priced, but available research also indicates that they may not be the most secure and profitable investment.

## What is "Location"?

According to my old *Webster's,* a location may be a "position in space; place where a factory, house, etc. is" or "an area marked off or designated for a specific purpose." To the neutrality of this term, the judgment of the observer may be added. Thus a location is described as convenient or good. Indeed the quality, or convenience, of a location is typically observed together with its purely spatial aspects. A convenient location is a convenient position or an area convenient for a specific purpose. A good location is a good position in space — or an area that is designated for a desirable purpose or purposes.

## What is a "Good" Location?

Goodness is a broad and elevated concept, encompassing suitability, purity, health, kindness, advantage, merit and superiority. Although goodness is an imprecise term, its application to location is clear. Superiority is presumed to encompass the other characteristics of "good" and *economic* superiority has become the accepted measure of the quality of an address. Thus some locations are considered to be superior because they are in "good" neighborhoods, while others are not.

This concept and significance of "good" dictates many decisions about where we live and work, about the locations with which we choose to be familiar — and in which we choose to invest. With notable exceptions, our motive is to maximize our association with "good" locations and to minimize our association with those that are less desirable.

If good locations are better than others because they are *economically* superior, it is because these locations attract wealthier occupants, who in turn pay higher prices to be near each other. Generally, in the United States, it is not only affluence that defines the quality of a location but also consistent affluence. Thus Park Avenue is pre-eminently good, its wealth conveyed in the near-perfect consistency of its facades, while Sutton Place, despite high prices, river views and some very fine architecture, is not considered to be quite as good, due to its distance from higher concentrations of wealth and the proximity of lesser users.

Why then do "mixed" locations, like Sutton Place, or, to an even greater degree, Columbus Circle or Harlem attract affluent residents? For some, social and economic variety, including a variety of residential and commercial uses, is actually viewed as acceptable, even desirable. Certain neighborhoods are able to attract affluence because they provide variety. Thus the predominant hierarchy of "good" addresses coincides with alternative definitions of desirability.

This relationship is dynamic. Neighborhoods that attract affluence tend to become more homogeneous, or consistently affluent, as they gentrify. Indeed one speaker referred recently to the homogenization of Manhattan neighborhoods, over the past ten years, indicating a lessening of differences in pricing. [1]

## Existing Hierarchies of Location

To the outside world, New York City is Manhattan. Obviously there are the boroughs, but these are viewed in a supporting role. Although there are good neighborhoods outside of Manhattan — Riverdale, Forest Hills, Brooklyn Heights, Park Slope — the most expensive residential districts are in Manhattan. All of the city's desirable office districts are in Manhattan. Many Manhattan residents never visit the boroughs. They are familiar with some of the suburbs, the countryside, the Hamptons, other U.S. cities, Italy, France and other desirable destinations abroad, but typically they are not familiar with even the most prosperous sections of Brooklyn or Queens. There is a resistance to the inconvenience of traveling away from the center. These attitudes are common among middle income as well as wealthy residents of Manhattan.

As compared with desirable locations elsewhere in the United States, Manhattan life involves extensive social and economic intermixing. Few urban areas have people from so many different places, and living at so many different levels and sources of income and wealth. Because of the city's density and reliance on public transportation and walking, New Yorkers come into regular contact with people who are culturally and economically very different from themselves. The intermixing of the rich with those who are less well off, of the educated with the less well-educated and of foreigners with native-born Americans is common every day, and at every level.

While the spirit of egalitarianism that still prevails in the suburbs and smaller cities is more difficult to maintain in this environment, the opportunities, if not the actualities, for inter-cultural and class contact are arguably greater. The multiplicity of Manhattan is what draws many residents in the first place. At the same time, for many New Yorkers, insulation from uncontrolled interaction with immigrants and the poor is a strong motivation. Thus we live with an ongoing contradiction — that is, an aversion to heterogeneity and the stimulation it provides. The balance between these two contradictory impulses allows Manhattan to command some of the highest and most variable pricing in the United States.

A common manifestation of this contradiction is in the differences between Manhattan's workplaces and residences. The market ensures that New Yorkers interact relatively freely with many different types and levels of people. However, we tend to withdraw to narrower environments in our personal lives. Many of the city's outer neighborhoods are still clearly defined by race and ethnicity. Within Manhattan, tight geography results in close physical proximity and considerable mixing in the street. At the same time, Manhattan is characterized by an extraordinary level of socio-economic control and exclusivity in its residential buildings and by a relatively distinct hierarchy of buildings and neighborhoods. Although our residential and work populations are much more varied than in the suburbs or in smaller cities, a feeling of residential security is maintained by a persistent separation of the races, and, perhaps more significantly, of the social classes.

In Manhattan, the appeal of consistent affluence is most evident on the Upper East Side. Other neighborhoods have, over the years, attracted more and more affluent residents. Thus much of the Upper West Side, Soho and Greenwich Village now rival the Upper East Side in their appeal, although they are not as consistently expensive. Other neighborhoods, socially and economically mixed, and formerly of limited appeal, have gained new status. These include Tribeca, Chelsea and even Harlem. Sometimes it is the opportunity to buy an entire brownstone that is attracting the affluent buyer. Thus the appeal of Harlem parallels that in the brownstone neighborhoods of Brooklyn, and the buyers are moving into houses where their neighbors may be poorer than themselves.

In Manhattan south of 96th Street, larger multi-family buildings are introduced into new, heterogeneous neighborhoods. These buildings are generally high-rise towers or converted lofts, and the apartments are rentals or are sold as condominiums. While less restrictive than similarly priced cooperatives, these buildings offer an economic consistency that contrasts with the inconsistent neighborhoods in which they are located. Thus islands of protected affluence provide privacy and security for residents who are open to diversity when they are not at home.

## Price, Price Stability and Price Appreciation

The societal values that define location translate directly into pricing and attitudes towards investment. Obviously the best neighborhoods are the most expensive, but are they the best investment? Do they offer the most economic security and/or the most opportunity for price appreciation? A preliminary answer to these questions is based on an analysis of cooperative and condominium housing prices in Manhattan. Brief comparisons with the rental market in Manhattan and the housing market in Paris follow.

For Manhattan, the best sources of location-specific pricing data are the market averages published by real estate firms. Miller Samuel, an appraisal company, co-publishes quarterly averages of resale prices with Douglas Elliman. Brown Harris Stevens published cooperative market averages until 2002. Nancy Packes, founder of Halstead-Feathered Nest, publishes average prices for the rental market.[2]

## Existing Hierarchies of Price

In Manhattan, the prime Upper East Side is the pre-eminent "good" neighborhood as it offers the most consistent residential affluence. It commands the highest average prices, followed by the Upper West Side and Greenwich Village. These neighborhood averages nevertheless hide important distinctions between more narrowly defined buildings and locations. According to Miller-Samuel, the average 2001 cooperative price on Fifth Avenue was \$1,596/SF, and on Central Park West \$1,066/SF, much greater than in their surrounding neighborhoods. The city's highest prices are commonly over \$2,000/SF. A number of apartments have sold for well over \$3,000/SF. The highest prices are typically obtained at Manhattan's best addresses, in the city's best neighborhoods. High prices in new condominium buildings frequently break this pattern, and indeed challenge traditional hierarchies of location. The first article in this publication refers to a recently negotiated sale price, at over \$5,000/SF, in the new AOL/Time Warner building on Columbus Circle.

Very large differences are an expected pattern among those who are familiar with New York City's housing market. However, the stability and price appreciation that underlies these patterns is less frequently considered.

## Price Stability

Conventional wisdom suggests that "good" neighborhoods are a secure or stable placement. The homogeneity of the environment is considered to parallel its safety as an investment. Both Brown Harris Stevens and Miller Samuel/Douglas Elliman have published data that can be used to address this issue. However, their research does not support this premise.

Brown Harris Stevens averages were prepared under my supervision until the end of 2002. These averages were calculated from sales in the company's prime market area which was defined as the prime Upper East Side, from Fifth to Third Avenues, the East River enclaves, including Sutton and Beekman Places, and Central Park West. The average cooperative sale prices were calculated back to 1988, which was the approximate peak of the last market cycle. The overall average market price in that year, for these very prime locations, was $1,025,146. The troughs were $839,590 in 1991 and $833,396 in 1996, roughly 18% lower than the high.

Miller Samuel data covers all of Manhattan, and more readily allows for a comparison of trends between the most expensive and less expensive neighborhoods.

On the Upper East Side, between Fifth and Park Avenues, the average cooperative price declined from $1,230,897 in 1989 to $975,326 in 1992, a 21% decrease.

On the less desirable Upper West Side, the average price was $443,125 in 1989 and $365,969 in 1992, a lesser decline of 17%.

In Greenwich Village, where the average price was even lower, the declining trend was not even clear. The average price was $250,693 in 1989, $287,687 in 1990, $257,713 in 1991 and $263,872 in 1992. The difference between the highest and the lowest of these numbers is only 13%.

The obvious conclusion is that the best of these neighborhoods lost the most value in the last real estate cycle, a conclusion that is consistent with trends over the past two calendar years.

In the Fifth to Park Avenue corridor, the average price dropped from $2,002,353 in 2000 to $1,752,664 in 2002, a loss of 12%. The number of transactions was relatively steady — 393 in 2000 and 391 in 2002.

This was not the case on the Upper West Side, where the average price continued to increase, over the two years, from approximately $533,000 in 2000 to $726,000 in 2001 and $810,835 in 2002. Again, the number of transactions held relatively steady, with 1,348 sales in 2000 and 1,282 in 2002.

Nor was it the case in Greenwich Village, where the trend was a bit more variable, from about $440,000 in 2000, to $592,000 in 2001 and $505,000 in 2002. In Greenwich Village the number of transactions increased by 26%, from 372 in 2000 to 468 in 2002.

It is possible that the overall neighborhood averages were affected by a change in the types of apartments sold. In an environment where the market for smaller apartments has been stronger than for larger units, a shift in unit mix might have had a bigger negative impact on the averages than an actual decline in prices. The table on the following page uses Miller Samuel data to test this premise by comparing average prices for different sizes of apartments for three different neighborhoods.

Again, these figures indicate that the most expensive of these three neighborhoods offered the least economic security. In 2002, one, three and four bedroom apartments, on the Upper West Side, had become nearly as expensive, on average, as they were on the prime Upper East Side. The average one bedroom apartment in Greenwich Village was actually more expensive.

## Price Appreciation

A review of price appreciation presents a complex picture, which nevertheless does not emphasize the most established locations.

Miller Samuel's price averages were used to calculate percentage changes in price, from 1992 to 2001 for various locations and sizes of apartments. (These years approximate the trough and the peak of the last real estate cycle.) A review of categories that appreciated by more than 150% indicated a marked preference for larger apartments in some locations,

## Average Cooperative Prices by Apartment Size

| | One Bedroom | Two Bedrooms | Three Bedrooms | Four-plus Bedrooms |
|---|---|---|---|---|
| | | | | |
| **Park to Fifth** | | | | |
| 2000 | $504,810 | $1,307,129 | $2,442,517 | $6,558,334 |
| 2002 | $397,091 | $1,302,148 | $2,827,977 | $4,967,000 |
| % change | (21.34%) | (.38%) | +15.78% | (24.26%) |
| **Upper West Side** | | | | |
| 2000 | $334,264 | $724,792 | $1,650,577 | $2,117,130 |
| 2002 | $371,184 | $820,779 | $2,590,444 | $4,882,857 |
| % change | +11.05% | +13.24% | +56.94% | +130.64% |
| **Greenwich Village** | | | | |
| 2000 | $367,863 | $752,512 | | |
| 2002 | $460,806 | $735,141 | | |
| % change | +25.27% | (2.31%) | | |
| | | | | Source: Miller Samuel |

for smaller apartments in others and for condominium apartments in general. For example, the average price of three bedroom cooperative apartments on Park Avenue grew by 205%. On the Upper West Side, the average for four-plus bedroom cooperatives increased by 269%. On the Upper East Side, one bedroom cooperatives (179%) appreciated more rapidly than either two bedroom (91%) or four bedroom units (90%). In the Village, the average for studio and one bedroom condominiums increased by 240% and 296% respectively.

In terms of location, the most consistent price appreciation appears to have been on Central Park West, and in the condominium markets on the Upper West Side and Downtown. These are very expensive, but not Manhattan's most expensive markets. Whereas in most Uptown locations, price appreciation was at least 150% for one or two size categories, and rarely exceeded 200%, price appreciation in these markets exceeded 150% and 200% more consistently.

On Central Park West, this price change meant actual price appreciation for existing cooperative inventory. The average price of one bedroom cooperatives increased by 166%, of two bedroom apartments by 154% and of three bedroom apartments, 303%. While no one would question the desirability of Central Park West, it is not Manhattan's most expensive address. Its cooperative boards are generally more flexible than on the Upper East Side and the neighborhood surrounding it is less consistently affluent.

Overall the average price of a cooperative apartment on Central Park West was $691,953 in 1991, considerably less than the average on Fifth Avenue, which was $1,433,291. In 2001, the average on Central Park West was $2,370,371, bypassing the Fifth Avenue average which was $2,107,138. This does not mean that Central Park West prices have matched those on Fifth Avenue for equivalent property. The mixture of post and prewar buildings on Fifth does not compare well, when averaged, to the almost exclusively prewar inventory on Central Park West, and the largest and grandest apartments in Manhattan are still on Fifth and Park. But rapid price increase does speak to a significant increase in the relative desirability of Central Park West.

Downtown, price increases resulted from the addition of new, more expensive condominiums. In the Village, the average cooperative price increased by 124%, led by two bedroom apartments which increased by 191%. In the Village condominium market, studio units increased by 240%, while the average price of one bedroom units increased by 296%. In Soho/Tribeca two bedroom cooperatives appreciated by "only" 175%, but one and two bedroom condominiums appreciated by 239% and 234% respectively.

## Manhattan's Rental Market and the Paris Market

The preceding review of Manhattan sale price trends suggests that the best locations offer neither the most appreciation nor the most secure investment. These results may not be unique to the Manhattan cooperative and condominium markets. Brief reviews of the Manhattan rental and Paris sale markets provide some basis of comparison.

## Manhattan's Rental Market

A review of rental market pricing, as published by Halstead/Feathered Nest[3], indicates much less price variability than in the sale market. This consistency should not be overstated as it applies less to two bedroom apartments than to studio apartments. Furthermore, many rental buildings are on the fringes of established neighborhoods. Prime addresses, such as Fifth or Park Avenues, with very few rental properties, have limited impact on available data, reducing the differences in neighborhood price averages.

In the second half of 2002, the average doorman studio rented for $1,965 per month on the Upper East Side, $1,910 on the Upper West Side, $1,789 in Midtown East, $1,910 in Midtown West and $1,927 in lower Manhattan.

The average doorman two bedroom apartment rented for $4,006 on the Upper East Side, $4,221 on the Upper West Side, $3,800 in Midtown East, $3,738 in Midtown West and $3,812 in lower Manhattan. In the same period, the average rent for the limited number of two bedroom apartments available between Park and Fifth Avenues was somewhat higher at $5,040.

Rental prices react much more rapidly to changed market conditions than do sale prices. Generally, rental rates in 2001 were already lower than in 2000. The more established neighborhoods were not favored. While studio rents in doorman buildings, for the market as a whole, fell by about 13% from the end of 2000 to the end of 2002, they dropped by 15% on the Upper East Side, 19% in Midtown East and 16% in lower Manhattan. While one bedroom rents decreased by about 14% in the market as a whole, they fell 18% on the Upper West Side and by lesser percentages elsewhere. In the two bedroom market, the overall average decline was 15%. It was about 16% on the Upper East Side and less elsewhere. Again, the average rent for two bedroom apartments in doorman buildings on the Upper East Side, between Fifth and Park Avenues, broke the overall pattern and declined by 28% (based on a limited number of transactions).

## The Paris Housing Market

According to Marie-Hélene Lundgreen, of *Belles Demeures de France* in Paris, prices in the luxury segments of the housing market have been relatively stable, with fewer sales, but a greater emphasis on higher priced apartments. Wealthy French families that had moved abroad for better business opportunities, or to avoid high French taxes, have been buying apartments in Paris, often as investments, as prices have risen much higher elsewhere. Newly wealthy Russians are entering a market where the foreign buyer was typically English, American or Western European.

The traditional hierarchies of location have been maintained, with the highest prices and strongest preferences focused in the 6th and 7th *arrondissements*, the banks of the Seine, and the *Triangle d'Or,* which is bordered by the *Champs d'Elysées*, the *Avenues*

*George V* and *Montaigne* and the Seine.[4]

These preferences have been enlarged somewhat to include old residential addresses in the more commercial 1st and 2nd *arrondissements,* including the *Place Vendome, Place des Victoires* and the *Rue Etienne Marcel.* Among the most luxurious addresses, prices have risen most rapidly along the *rue du Faubourg St. Honoré* between the *Etoile* and the *Place de la Concorde.* These "renewed" addresses are characterized by proximity to fashionable restaurants and shops and by prices that in some cases approximate those in the most established locations.

According to the *Chambre des Notaires de Paris*, prices in central Paris rose by an average of 12.4% from the first quarter of 2002 to the first quarter of 2003. Prices increased most rapidly in the aristocratic 7th, by 16.2%. Prices increased by an impressive 15.1% in the relatively expensive 1st *arrondissement.*

Otherwise much of the strongest appreciation has been in the "lesser" sections of Paris, with increases averaging 16.1% in the 18th (*Montmartre)*, over 15% in the 12th (*Bastille*) and the 20th and over 13% in the 11th, 13th and 19th *arrondissements.* Price appreciation in the very *bourgeois* sections of the 16th, 8th and 6th *arrondissements* averaged less than 10%.

These results suggest that, despite the excellent performance of the 7th and 1st *arrondissements,* recent price appreciation for the market as a whole has exceeded the luxury segment, and that the strongest price appreciation has often been in "lesser", but improving, neighborhoods.

## Conclusion

"Good" locations may be the most expensive, but they are not necessarily the most secure placement or the best investment.

Available data for Manhattan indicates that the economic consistency of the prime Upper East Side has not guaranteed stable prices in declining markets or superior price appreciation as prices rise. The differences are not merely due to the recent weakness in the market for the largest apartments. Smaller apartments in the best neighborhoods have also not kept pace with their counterparts elsewhere.

Newly expensive neighborhoods like the Upper West Side or sections of Downtown have appreciated more, or lost value less, than the prime Fifth to Park Avenue corridor. This has been due in part to the construction of new, expensive buildings, in neighborhoods where more sites are available. However, this is also true for existing inventory.

A comparison with the rental market indicates a similar picture. The example of Paris is incomplete and more mixed. The indicated data does not address the stability of Paris prices over the longer term; nevertheless newly fashionable neighborhoods have recently outperformed established locations

"Good" neighborhoods convey a sense of security that does not appear to translate financially. Changing neighborhoods, with more heterogeneous environments, appear to be the more secure and profitable economic choice, a conclusion that contradicts some established assumptions.

1 Bob Knakal, at an Appraisal Institute Seminar, Association of the Bar of the City of New York, April 3, 2003.

2 Disclaimer. Brown Harris Stevens cooperative averages were prepared under my supervision. Brown Harris Stevens and Halstead/Feathered Nest are affiliated companies.

3 "Year End 2002 Manhattan Rental Report," Halstead/Feathered Nest, by Nancy Packes.

4 According to the *Chambre des Notaires de Paris*, the highest average prices are in the historic 6th and 7th *arrondissements* on the left bank of the Seine, where prices average over 5,000 euros per square meter (465 euros per square foot), and where Ms.Lundgreen indicates that prices for better apartments average 10,000 euros per square meter.