



The Centurion, Manhattan, New York.



One step at a time

Even if new President Barack Obama is the new Roosevelt, he may not help the stricken United States housing market as much as everyone hopes. The journey to recovery may well prove to be a long, slow slog.

TEXT: **RICHARD WARREN**

Future generations will talk about this moment. Barack Obama has barely placed his feet under the Oval Office desk, but already he is making history. However, only time will tell whether he is remembered with love or loathing. Many Americans hope his plans to pump billions of dollars into the US economy will ward off a second Great Depression. Homeowners, developers and estate agents have their fingers crossed that his "New Deal" will help lift the property market out of its worst slump since the Great Depression of the 1930s.

They have every reason to want a miracle. The property slump has spread across the US like a plague, with the last handful of healthy property markets becoming infected in 2008. Foreclosure rates are running so high that half of all properties sold are bank owned. Most of those are sold at fire sale prices, which are pushing down prices across the board – median prices are down 11 per cent year on year. In California, towns are going bankrupt because local authorities can no longer raise enough money from property taxes. In Florida, developers are selling properties at less than it cost them to build.

Until early last year New York had remained an outpost of the boom that had turned to bust in most other places. Some commentators said the city's buoyant property market was more "protective sphere" than "bubble", because prices kept rising – up 20 per cent in Manhattan in 2007. But in the last six months of 2008 all that changed. The Big Apple's property market not only lost its shine, it looked blemished and ever so slightly rotten – prices fell 8 per cent, and look set to continue to slide in 2009.

"Prices are coming down across the board and it varies from unit to unit," says Gordon Voight II, sales associate at New York relocation agents DJK Residential.

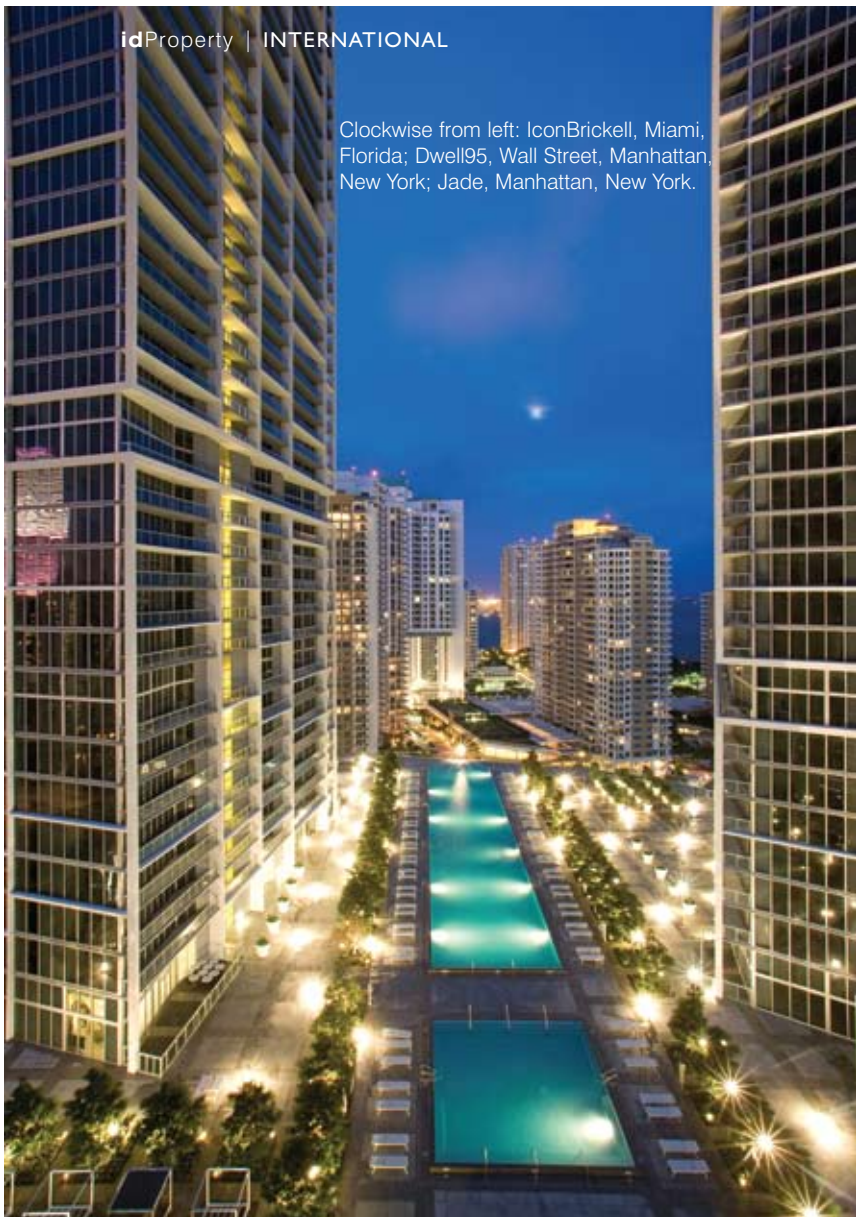
And Nick Barnes, residential research partner at estate agency Knight Frank, says it now takes five-and-a-half months to sell a property.

"New York being a global financial centre has suffered badly as a result of the 'credit crunch' contagion and Wall Street has seen a wave of closures and rising unemployment," Barnes says. "While for those remaining in employment, salaries will likely be frozen and bonuses greatly reduced or shelved altogether for the current financial year at least."

Most commentators believe New York's property market will not recover until 2010.

According to New York's biggest independent estate agency, The Bond Property Marketing Group, the lower and middle sectors of New York's housing market are faring better than the high-end, spacious apartments and townhouses favoured by bankers in Manhattan neighbourhoods like the Upper East Side

Clockwise from left: IconBrickell, Miami, Florida; Dwell95, Wall Street, Manhattan, New York; Jade, Manhattan, New York.



– the price of an Upper East Side three-bedroom apartment marketed by Prudential Douglas Elliman Real Estate was slashed by Dhs3 million to Dhs8.8 million recently.

In Chicago, the market for brand new condominiums has collapsed. Less than 1,000 new condo units were sold in 2008, the worst year since market monitor Appraisal Research began tracking data in 1997. The sales slump is hurting developers in their pockets. Figures from research firm Foresight Analytics show Chicago’s residential developers defaulted on 13.7 per cent of their loans in the third quarter of 2008, four times higher than in the same period last year. Donald Trump, who is building a 92-storey tower in downtown Chicago, has joined a growing list of developers struggling to pay back loans. He has asked his backers, a syndicate led by Deutsche Bank, for more time to repay the remainder of the Dhs2.5 billion he has borrowed.

Construction work on what will become the world’s tallest residential tower, the 610-metre-high Chicago Spire, has slowed because of the downturn, a spokesperson for its developer, Shelbourne Development, says. However, sales have been strong. One-third of the building’s 1,193 apartments have been sold, including its Dhs146 million penthouse, which was purchased by Chicago businessman Ty Warner, founder of Beanie Babies soft toys. Targeted at wealthy international buyers, prices for studios start at Dhs2.7 million at this Santiago Calatrava-designed project. The 150-storey high tower is scheduled for completion in 2011.

While Chicago’s new build sector struggles, the re-sales market continues to bear up better in the downturn. “We have not seen any across the board price retraction in Chicago,” says Mike Golden, co-founder of Chicago estate agency @Properties.

“Our market never went up at the rapid pace of other overheated markets and is not falling like the others. There are definitely instances where people achieved pricing that was higher than the market and those buyers are not able to sell at those inflated prices now, but, in general, prices have held pretty steady and, in some cases, continued to increase throughout the Chicago market place.”

The top end of the city’s property market – apartments and townhouses in downtown areas like Streeterville, where the Chicago Spire is being built, and the Gold Coast, were strongest he says. In Streeterville, a three-bedroom waterfront condo will cost about Dhs8 million while one-bedroom units sell for between Dhs920,000 and Dhs2.2 million. On the Gold Coast, the best period townhouses sell for up to Dhs51 million and two-bedroom condo units go for, on average, around Dhs2.4 million.

Chicagoans hope their city’s fortunes will brighten if it wins the 2016 Olympics bid. If successful, the authorities will build the Olympic Village in a run-down area of the city where it will be a catalyst for urban regeneration, like London’s Olympic project in the British capital’s East End.



Clockwise from top: The Centurion, Manhattan, New York; Superior Ink, West Village, Manhattan, New York; Chicago Spire, Streeterville, downtown Chicago; facade, Twenty9th Park Madison, Manhattan, New York.

"We feel very confident about our chances of getting the 2016 Olympics," Golden says. "This would be a huge boost for Chicago, both for the infusion of jobs and money directly into our economy and also by putting Chicago into the forefront of the national stage."

As Obama's home town, the city has been basking in reflected glory following his electoral success – property viewings rose immediately after he was elected, but whether this will translate into higher sales remains unclear.

Like other estate agents, Golden expects the new president's plans to kick-start the economy with billions of dollars of tax cuts and investment lifting the property market. But economists urge caution.

Julian Jessop, chief international economist at consultancy Capital Economics, believes central bankers are doing more to help the economy than Obama, by buying up mortgage backed securities, so banks would lend freely again.

"I think that what the Federal Reserve does is more important than what Obama does, even though he has a large stimulus package," Jessop says. "If they

[the Federal Reserve] get banks lending again that will help the housing market." And lawyers warn some of Obama's plans may be bad for the property market.

"While the financial bailouts are great, his [Obama's] potential increases in the capital gains and state taxes could have adverse effects on the city's market," says Luigi Rosabianca, founder of New York property law firm Rosabianca & Associates. Many Americans believe a complete overhaul in the way they spend and save is needed before recovery can happen.

"I think it is unrealistic to expect a major bounce-back from a new presidential administration," DJK Residential's Voight says. "With the credit markets readjusting, we are going back to a more traditional way of doing business, which requires buyers to have good credit, strong financials and steady employment. Individuals are going to have to be more responsible for their personal finances. I feel that many Americans are going to have to change their way of living in terms of debt," he says, before adding: "I have closed all my credit cards." **ID**

