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Lower interest rates in 2024 could boost condo sales, reduce apartment rents

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Manhattan. Buck Ennis

Those who blamed higher-than-normal interest rates for the troubles of the residential market in 2023—sluggish sales, reduced inventory, big discounts—might have something to cheer about as the year comes to an end.

The Federal Reserve announced in mid-December that it was essentially done raising rates, and, in fact, was preparing to possibly cut them in 2024, a bit of news that sparked a massive pre-Christmas stock market rally.

If (or likely, when) rates drop, people clinging to coveted 4%-rate loans like they're Taylor Swift tickets and thus removing themselves from the market might be finally tempted to put down an offer. And that should have a cascade of desirable effects, some economists say. More buyers, conversely, means more people putting their co-ops and condos up for sale, boosting supply after a 2023 when a lack of inventory locked the market.

Rents for apartments are also expected to come down in 2024, as some people who had been leasing decide to purchase, easing demand. Landlords may not like the reduced revenue, but tenants will probably breathe sighs of relief.

In some respects, 2023 seemed robust, as Manhattan median sale prices flirted with records. But still those medians never quite surpassed the $1.25 million record from the second quarter of 2022, according to data from Miller Samuel and Douglas Elliman, in a sign of the upcoming softening.

To be sure, there were plenty of eye-popping deals. Tied for the largest residential transaction of the year as of mid-December was one where an unnamed buyer plunked down $66 million for a five-bedroom apartment at the supertall condo 432 Park Ave. But the 8,100-square-foot spread initially asked more than twice as much, or $135 million, when it first came on the market in 2021. In the end, the unit traded for slightly more than the $59 million the owner paid in 2016.

And despite big deals at new condos, such as the Upper East Side's 109 E. 79th St., from Victor Sigoura's Legion Investment Group, and the Bellemont, at 1165 Madison Ave., from Sigoura's former colleague Miki Naftali, the heftiest transactions of 2023 had a sort of retro vibe, with mainstays of the last condo boom—15 Central Park West, 220 Central Park South and the Plaza—all seeing significant trades.

Fortis Property Group's condo Olympia Dumbo in Brooklyn, which scored the priciest weekly contract several times in 2023, however, showed the appetite for new construction is not limited to Manhattan.

Overall, buyers in 2023 signed 1,198 contracts for homes priced $4 million and above, a decline from the 1,304 who did so in 2022, according to the Olshan Luxury Market Report, which tracks the luxury sector in Manhattan.

On the ownership side, co-ops continued to fare worse than condos. Escalating operating costs may have been scaring away buyers. It's also possible that buyers failed to pass muster at elite buildings because of elevated loan costs. Their debt-to-income ratios may just not have penciled out. Whatever the case, sales at some well-known co-ops this year suggested just how hard it can be to market them.

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Few new, green construction fences went up in 2023. Indeed, developers were expected to build just 10,000 new apartments in 2023, far below the 50,000-a-year target that Mayor Eric Adams has called for to meet lofty housing goals.

And when there were significant projects, they were often found in the outer boroughs and filled with affordable housing, including what appears to be 2023's largest planned development, in East Tremont, the Bronx. Although trendy Manhattan neighborhoods may be missing out on housing production, the below-market-rate offerings are expected to help ease the city's affordability crisis.

Next year's assumed dip in residential rents had already begun as 2023 wound down. November's median in Manhattan was $4,000 a month, according to Elliman, which was higher than prepandemic times but still the lowest in two years. Lease signing picked up as a result.

Of course, other and sometimes less tangible forces shape real estate markets. The shell companies that shield so many buyers have won praise from the trade group Real Estate Board of New York as a way to preserve privacy. But as the collapse this month of a Bronx apartment building suggested, hiding identities behind limited liability companies can make it difficult to assign responsibility when something goes very wrong. Whether pressure builds to unmask LLCs in the New Year, something lawmakers favor but Gov. Kathy Hochul seems indifferent about, remains to be seen.

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