

Ryan Morfin: Welcome to Non-Beta Alpha. I'm Ryan Morfin. On today's episode, we have Lisa Simonsen from Douglas Elliman. She's a top end real estate broker in Manhattan. And will tell us a little bit about the trends on New York residential real estate post the COVID impact. This is Non-Beta Alpha.

Ryan Morfin: (singing).

Ryan Morfin: Lisa, welcome to the show. Thanks for joining us today.

Lisa Simonsen: Thank you. Thank you.

Ryan Morfin: Well, why don't you take a moment just to explain to our viewers a little bit about what you do in New York City and a little bit about Douglas Elliman, and then we'd love to jump into where the markets are.

Lisa Simonsen: Hi again, thanks for having me Ryan, and I hope everyone listening is staying safe and healthy. So I work for the largest company in New York City, Douglas Elliman, and run a top team. And we are known for the high end of the market, but my team does... We do everything. So we do all neighborhoods and all price points.

Ryan Morfin: Fantastic. So, New York City is a very deep international real estate market. And given that unfortunately, New York City is one of the epicenters of the outbreak for the coronavirus, would love to hear a little bit about what was happening at the end of 2019 and coming into January, February, what the outlook was of the market. And then maybe we could pivot to what happened when the city and the state started to get shut down.

Lisa Simonsen: Absolutely well, we were certainly off to a very robust end of 2019 and '20. And prices since Corona, they have reduced, which have caused sort of an uptick in the market sales. March 2020 was on track to outperform actually 2019 for the first two weeks of the month. As of March 16, sales have diminished about 20% from a year ago.

Ryan Morfin: And so international buyers have been coming into the marketplace quite a bit over the last decade or so. Has that slowed down, and people have grown accustomed to Chinese and Russian buyers coming at the super high end of the market? What's your view of that dynamic playing out in the year to come?

Lisa Simonsen: Well, I mean, currently I'm actually doing some very significant transactions with overseas buyers, actually for townhouses. I think ironically, they were doing this pre Corona. And I think that there'll probably be even a more, I think the townhouses are going to become even more popular because of the obvious reasons of security and safety and not dealing with people and being on elevators and all of those things. So I think that, I mean, look, obviously the market has slowed down right now, but if you ask that sort of what's happening

in since March 2020, sales have as significantly reduced at least by 25% in terms of employees being laid off and just new contracts that are being signed.

Lisa Simonsen: But I do think that over the next period of time, we are going to see the overseas buyers that we have been working with that are wanting to be in New York. I think that they may be thinking about it right now or slowing down, but I do believe that they are going to come back and I think they'll come back, perhaps, they're going to look at things slightly differently. Maybe they're going to want to discount in price, or maybe they're not going to want to be in a condo and they'll want to be in a town home. But I think that it's just, it's a pause, and then it's going to be a refresh.

Ryan Morfin: So you bring up a good point, amenities and common areas that a lot of people sought after may actually turn out to be a liability for building layouts given that people are going to want a little extra space to spread out. How do you see that playing out? So you think that's going to be leading for greater demand of townhouses or for larger square footage spaces?

Lisa Simonsen: Yeah, I mean, I speak to sort of some of the leaders of the industry and nobody knows exactly, Ryan. I do believe there's going to be a new norm. And I think that some of the things which we all found very enticing for at least the purchasers over the last few years, the biggest, the best, the playrooms, whatever it was, the swimming pools, I think there's going to be certainly a group of people that, that's not going to be it's attractive to. And they are going to want the privacy and security of being in a controlled environment and not with all of the people on the elevators and in the playroom, et cetera.

Ryan Morfin: So, it's hard to change a floor plate of a building, but you can definitely change the layout, but that requires a lot of CapEx and improvement money. I guess the other scenario is you could start going into other types of neighborhoods and having a spillover effect for more space like Brooklyn Heights or even Harlem. Maybe you can go in a little bit about kind of some of the new markets that may be positive beneficiaries in New York City for kind of a change in demand.

Lisa Simonsen: Well, I think, I mean, I don't even think you have to go to Harlem. I think that a lot of the townhouses that have been under the \$10 million mark, maybe even around the \$5 million mark in the city may see an up spike of their value. So I don't even think we have to leave the city. And obviously there are areas potentially in Brooklyn that people may be pushing toward, again, getting out of the city. But it may not be Brooklyn, it could also be other places, but again, I don't think we have to leave the city because there are townhouses under the 5 million mark that have been not so popular over the last few years that may actually, we may see the prices definitely going up and their value and just, again, lifestyle changes.

Ryan Morfin: One interesting thing that happened, a dynamic that occurred in your industry is that the governor and the mayor, I guess, shut down the residential brokerage

industry for a few days, and then it came back up. Maybe you can talk a little bit about what happened and what the changes were driven by.

- Lisa Simonsen: Well, I mean, the changes obviously have been driven by everything that's gone on in terms of COVID. I'm sorry... I don't quite understand the question.
- Ryan Morfin: Oh, when the governor shut down the residential brokerage industry for about a week and then it came back online, because I guess they said that finding a home is an essential service. I assume that's what happened, but I'm wondering if there's more clarity that you have it shutting down and coming back on.
- Lisa Simonsen: I think right now there's movements of all kinds because of that. So they're scaling up, they're scaling down. The home second market and home markets are increasing. The suburbs are increasing and obviously there's going to be opportunities which will arise with tremendous reductions for some quick sales.
- Ryan Morfin: So are people moving right now? I mean, do you see people moving in and out of apartments and buying and selling right now?
- Lisa Simonsen: The rental markets are on fire in the city. So I think some people maybe they were going to buy, now they want to rent. And the Hamptons, and all of these sort of, I'd say, anything within three hours of New York city, the rental market has been on fire over the last six weeks.
- Ryan Morfin: Yeah. I wonder if portion of that is people just moving out of the city for a period of time. I know a lot of friends have gone out to the suburbs to rent houses or apartments, and the Hamptons to get out of the city. Yeah, so I'm wondering then, the market's open though, it seems that commercial movement has been slowed. Commercial moves, tenants trying to leave.
- Lisa Simonsen: I mean, obviously all of the new dev is dead right now. No one's allowed to work. The sites are down. So everything is on complete lockdown for the next period of time.
- Ryan Morfin: Yeah. And it appears that commercial tenants that want to move out of their buildings are not able to, until I think May 16th in New York state.
- Lisa Simonsen: Exactly, until further notice. But certainly right now it's May 16th.
- Ryan Morfin: Well, it's interesting. So your industry is, as is ours considered essential services. People need shelter and if they have a lease coming due, they're going to have to move out or find a new place or buy a new place for that matter. Yeah. Well, that's very interesting. I think the international component of some of the demand, if you will, I'm wondering if you're talking to international buyers today, what's their view? I mean, it may be harder to travel in the next six to 12 months into the city to spend time at their pied-à-terre. Are they buying this just as a place to park some assets and cash... The real estate market is a very secure

place in New York City. Are they just putting it as an investment and don't really use it? Or are they trying to get to the States, in your opinion?

Lisa Simonsen: I mean, listen, it's too soon to decide exactly what all of our foreign buyers and money is going to do. We're in the midst of it right now. So it's mostly speculation. But I believe living in New York for several decades, that this is a city, I still have children here. Everyone, New York is resilient. People always want to live here. I'm doing deals right now with people that have children under five years old and they may be trying to secure a better deal, but they have no thoughts of leaving. They're thinking of the best schools, what schools they can get their children into. And as I said, they may be taking a pause or trying to get a better discount, but they're certainly not planning on leaving.

Ryan Morfin: Yeah. No, it's definitely one of the global gateway cities we have here in the States. And I do think that's one of the reasons maybe we saw high outbreak. I mean, so shifting gears to a personal set of questions. I mean, so you've been living in the city for the last few decades, and now you're, you're sitting here during this pandemic. What's it been like in New York City for our viewers that aren't in the Northeast, how have you guys been impacted?

Lisa Simonsen: Well, I mean, look, obviously I'd be foolish to say we haven't been impacted. The city shut down. My family, we're fortunate, we live across from a park. It's a quiet area anyway. So if you were to come and visit us, actually, it doesn't really feel that different. There are people in the park they have masks on, but it's still very beautiful and serene and quiet. Obviously, when you get into sort of more Midtown and those areas, which I haven't been into only once, it's completely quiet and much more surreal feeling. But I do think listening to everyone that this is a period of time, and I am very confident, New Yorkers are resilient. And there is sort of like when taxes came a few months ago, there's always people that probably were going to leave anyway. My chairman says this, they may go a little quicker.

Lisa Simonsen: But then at the same time, as you have people leaving, you're always going to have people that want to be in New York. And so yes, New York right now is one of the pandemics, been hit very hard with COVID, but it is a period of time. There will be a cure and then there's going to be, as I said, I think there'll be, of course there'll be people that don't want to be here, but then they'll be people that want to be here. And they'll be just a lot of rethinking. So as I said, I think there's certainly going to be a lot of real estate moves, a lot of opportunity. And a lot of people that probably are going to want to be in single family homes, but not leave New York.

Ryan Morfin: Yeah. I know it's one of those cities that continuously refreshes itself and no doubt at some of the toughest people in the world. So this, this concept of the working rich, right? People who work on Wall Street and hedge fund industry and private equity that all live in Manhattan, are you starting to see any weakness in the labor market there, are you guys concerned about layoffs in the

coming months or what's your view of kind of the consumer of these high end townhouses?

Lisa Simonsen: Well, I mean, look, clearly there's been an incredible impact on everything, from if we think of restaurants and we think of my offices, companies have been shut down. So, I mean, there's no question that it would be foolish to say that there's not a concern. However, I think business will come back and I think it's just going to be a whole new norm. We're not sure what that will be. Restaurants will be... they probably will not be allowed to have as many people, the tables may be half of what they were. But I think that over a period of time, I mean, obviously there's been a lot of influx of capital in terms of trying to make sure that there are compensations right now for small business loans and all of the things, all of the surpluses that the governments are working on right now.

Lisa Simonsen: But I believe that we will come back and we'll come back in a strong way and it's going to be a new norm with obviously some bumps along the way. I mean, listen, some of these things are not that bad. The sort of being cleaner and more observant of germs and all of that type of thing. And the taxis made me that needed to be refreshed anyway, I don't think... I think that's probably overall and over a long period of time, not a bad thing.

Ryan Morfin: Yeah, no, this great pause has caused us to all kind of reflect on the world that we're living in, in a good way, I think. I hope. One quick question is, so a lot of the projects that have been going up over the last few years have been really large projects, at least the ones that we hear about that we're not in the industry day to day. Is there an over supply right now, or do you think supply has been kind of moderated of new product coming into the market?

Lisa Simonsen: Yeah, no, that's a great question. And in fact, what's going to happen is there's not going to be any inventory for now several years. So I think that at one point when people were concerned there was a surplus, but there's not going to be any new construction. So now there's not going to be an over surplus, at all over the next five years.

Ryan Morfin: And is construction still going on? Are some projects still moving? I know-

Lisa Simonsen: No, there's no construction right now. Everything has been halted.

Ryan Morfin: Interesting. Yeah. And we're seeing different pockets around the country. Miami is still working. Dallas is still working. But New York and Chicago have been shutting down a lot of these projects. So that's going to definitely slow down the delivery dates with all these supplies. I mean, some of the developers you must have relationships with, are they worried about how the banks are going to react on the construction loans? Or what's the view from a developer standpoint, would you say?

Lisa Simonsen: Well, I mean, I think it's definitely, it's a time of uncertainty. And I think that the buyers and again, I certainly, I don't want to call it a silver lining, but perhaps some of the prices were over... Sort of higher than maybe was realistic as they were going up, up and up. And maybe sellers were not realistic. Buyers maybe were trying to... I think, maybe there's going to have to be a more of a meeting of the minds that can be favorable for everyone to get inventory moving again.

Ryan Morfin: And so if I was coming into Manhattan, say next month to go buy a town home, what kind of discount would you say I should be expecting from a price break given where we are today? Is it a 5% discount? 10%? I know each property is different, has different build-out, but what's a kind of a reset expectation on property prices?

Lisa Simonsen: Yeah. That's a smart question, but unfortunately it's really a case by case. First of all, I hope you have a good broker when you come to the city, because obviously that's a critical, but also you need... It depends on the price... Was the house worth 10 million, but it was asking 20, and now they have to... So there's a lot of variables because sometimes that asking price was never realistic anyway. So a combination. A combination. And it does need to sell. I mean, there's a lot of variables in that. But, certainly, listen, there's no question there's going to be some very, very good deals. In a way probably we won't see again for a long time.

Ryan Morfin: And so, the other half of the question is most people put a mortgage on, were you seeing a lot of cash, all cash deals or did most of them have some type of financing?

Lisa Simonsen: I mean, most of my personal deals are usually all cash, but certainly on our team, we do everything. There are mortgages of course, and listen, some very high net worth people that have the cash, would prefer to use their cash in other ways, because the interest rates are so low.

Ryan Morfin: Yeah. No, that's a very interesting comment. I think rates are going to be low for a while. And so hopefully it'll be an opportunity for people to get in, increase home ownership across the country. I think the mortgage market is getting harder and harder to fulfill new residential purchases, at least in other parts of the country that we talked to. But it's going to be interesting to see how the residential market bounces back, especially for some of these. And a lot of these larger properties, right, or higher purchase price properties, it's interesting, because sometimes you run into a dilemma where the person who's buying doesn't have a W2, which kind of makes it a harder purchase, doesn't it?

Lisa Simonsen: Well, it depends on your attorney. Yeah. It depends on your team and the creativity of the purchase and the LLC. There's always loopholes. I mean, a legal loopholes and ways of purchasing.

Ryan Morfin: And I know you're an expert in New York City and maybe Florida as well, I don't know if you've been paying attention to what's happened in Chicago, but the States changed a lot of the property tax laws. Do you think there's any risk of that coming to New York, increasing the property tax on overall property in general?

Lisa Simonsen: Oh, that's happened.

Ryan Morfin: Oh, so what happened... What happened in the property tax stand point?

Lisa Simonsen: Over the last six months the taxes have increased dramatically and there would've been an actually a large group of New Yorkers, certainly high net worth that actually moved to Florida for exactly that reason. There have been a significant tax implications.

Ryan Morfin: Okay. Got it. Yeah. I know people like Carl Icahn have moved down and other hedge fund folks from New York and New Jersey for that matter. Some large hedge fund folks moved down to Florida, and that's unfortunate.

Lisa Simonsen: Increased. So there's been... It's significant.

Ryan Morfin: Yeah. And you guys must be... What are your thoughts? I mean, the Amazon headquarters was supposedly coming to Long Island City and it had busted, did that change any of the pricing dynamics in Long Island City? Because that's a booming area, but it probably could have gone gangbusters had Amazon moved in.

Lisa Simonsen: I mean, listen, that was a big hit. I mean, clearly this was going to make a big difference for Long Island City. And I think that the prices, no one knows exactly where they would have been, but obviously they have certainly not increased because of that. I mean, they're not on the up... the upswing that might've happened, but again, with everything with COVID, who knows.

Ryan Morfin: And going back to the personal side of questions, have you guys had any difficulties or the last few months on access to food at the grocery stores? Or has it been pretty well stocked up? Or has it been all Amazon deliveries?

Lisa Simonsen: Our deliveries, we really haven't... No, there's not been any change. I mean, obviously we're not in restaurants, but certainly in terms of at home and getting access to food, no, there hasn't been an issue.

Ryan Morfin: Fantastic. Well, your outlook, if we had to wrap up here, your outlook is positive. Maybe give us two or three trends that we just start following, you think, from here on out as to get a better beat on the residential market in New York City.

Lisa Simonsen: Yeah. I mean, Ryan, I don't want to act sort of like foolishly up the beat because there's clearly, there's a worldwide, global epidemic. However, I do believe that we will come through this. And I also, having three children in New York City, I'm very confident that there's always going to be a group of people that want to be in New York City. As I already said, I'm working on several deals right now from people that are still moving forward. They actually slightly dropped their offers, but they didn't pull out, they didn't pull back. They're still moving forward. So they want to discount right now, but they still want to live in New York. So I think that's a great sign of moving forward. And I do believe that New York is resilient. There's going to be obviously, this will pass. And I think it's going to be a new norm.

Lisa Simonsen: And so buildings like everything else in fashion, what was in perhaps two years ago is not now. So I think we should really look for the next trend. I would put my money on town homes. I've always thought they were undervalued. And I think there's going to be a lot of people that are not going to want to be in the buildings. All those things that have been popular and sort of very glamorous for the last few years, these huge amenities and playrooms and gyms and saunas and swimming pools, there's going to be a group of people that are going to say, "No, I'm not interested in that. I want a private house." And that same group that could afford the condominiums, there are a lot of "affordable" homes in New York City, that would be the same price as a condo where you can have your privacy and have your kind of... We're designing something right now, have it your sort of germ free room, instead of your mudroom, you used to come in with the dog and [inaudible 00:23:29]. Pardon me?

Ryan Morfin: Yeah, I'm laughing. Yep, I know exactly. That's an interesting insight. Yeah.

Lisa Simonsen: The thing with the mudroom, which is how I've sold townhouses, "Oh, this is where your dog and the nanny and the kids come in." Guess what, that's going now, we're going to design that, that's your COVID room. So you come in, you drop your clothes, take a shower and go in. So we're going to redesign houses and have... those are the steps going forward I see. And I do feel optimistic. It's just going to be different. So instead of me going and selling something and saying, "This has the biggest playroom in the city," I might say, "This is a private townhouse and I have your COVID room. So instead of your mudroom, this is where everyone can come in and get ready to come into the property."

Ryan Morfin: No doubt. And UV lights, UV closets, like the hospitals are using to disinfect clothes and quality of air filters, things like that are going to be critical. Is it HVAC or PTAC, and things like that.

Lisa Simonsen: Isn't that great? I was always a germaphobe anyway. So for me, I'm like, I love it. I think it's... And again, I don't want to make light of it, for me, all of that, I like anyway. Prior anyway, but this is just, wow. Now we have this... It all sounds great.

Ryan Morfin: Well, from one germaphobe to another, thank you for joining us. And no doubt the city that never sleeps is still one of the best cities in the world. And of course, it's going to bounce back. So Lisa, thank you so much for joining us and we appreciate your time.

Lisa Simonsen: Okay, great. Thank you so much, Ryan. Thanks.

Ryan Morfin: Thanks for listening to Non-Beta Alpha. And before we go, please remember to subscribe and leave us a review on Apple podcasts or our YouTube channel. This is Non-Beta Alpha, and now you know.

Ryan Morfin: (singing)