

# Pulse Real Estate Report: 2017 East End Roundtable

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As the final numbers for 2016 are crunched, The Press asks industry experts to analyze the behavior of the Hamptons real estate market and offer insights into the state of the market and where it is headed in 2017. This year, a few new faces join the mix, adding to the broad range of experience we're tapping into to help understand what indicators say about the future.

## How would you describe the general mood of the housing market as the year begins?

**Anthony DeVivio:** Based on the activity we are seeing, I think it will be a good first half. Buyers are out looking and making offers. A definite uptick from the second half of 2016.

**Judi A. Desiderio:** This is the strongest January since before the crash.

**Robert M. Nelson:** There is much activity in January. People had been waiting to make decisions that seem to now be moving forward. All of our offices are busy for January, The weather helped, also.

**Patricia Petrillo:** While it was very quiet this fall leading up to the election, it has been busy since.

**Paul Brennan:** The general mood of the housing market is cautious optimism, coupled with sporadic buying spurts.

**Kenneth Smallwood:** Going into 2017, the mood is optimistic. A pause in the overall market and recent price reductions will bring back buyers who follow the Hamptons housing market closely. New construction and remodeled homes under \$2 million should be first in demand. First-time buyers looking at the under-\$1 million inventory will find fewer homes in desirable locations for less than \$700,000.

**Mala Sander:** The beginning of the year is generally a busy time for the Hamptons housing market. Buyers and renters are looking and planning, and making decisions about where they want to be this season.

**Evan Kulman:** I have been seeing an increase in activity on both the buying and selling sides.

## As of right now, which price point is particularly active, and why?

**Anthony DeVivio:** The lower end of the market is the most active—I would say, up to \$2 million. When it comes to new construction, I'd say up to \$5 million. I think it must have to do with what is happening to our Wall Street buyers. They are all making less money—and, in some cases, losing their jobs.

**Judi A. Desiderio:** With eight offices, in each hamlet, we see broad market shifts. Demand for homes up to \$3.5 million is greatest.

**Robert M. Nelson:** Under \$1.9 million is very active, and special or waterfront properties.

**Patricia Petrillo:** At this moment, I feel the most activity is under \$5 million. That can change, and does anytime, but the lower price ranges generally have a bigger audience, and therefore more activity.

**Paul Brennan:** One million dollars to \$5 million is still strong. Under a million is very active. Over \$10 million, sporadic.

**Kenneth Smallwood:** The under-\$1 million price point is always in demand—it represents approximately 50 percent of all sales transactions in the Hamptons and is the most affordable.

**Evan Kulman:** The lower end of the market seems to be busy. Interest rates remain fairly low, and buyers are saying they would prefer to purchase now with relatively low rates.

## How do sales prices compare to asking prices?

**Anthony DeVivio:** For the most part, they are within 7 percent. Mind you, prices have come down over the past year.

**Judi A. Desiderio:** This depends entirely on which location and which price point. If a listing is priced right, the negotiation factor is slim to none. This January, we have seen more bidding wars than in the past several years.

**Robert M. Nelson:** That all depends on the original asking price. We have multiple offers on correctly priced properties, and no showings on quite overpriced properties.

**Patricia Petrillo:** It really depends on the buyer's perception of a fairly priced property vs. a property that has an ambitious price. If the property is perceived to be priced fairly, the eventual sales price will probably be closer to the asking price than one that is perceived to have an ambitious price.

**Kenneth Smallwood:** I track price trends for my customers, specifically focusing on the number of days on market, and last ask to sold purchase price. Here are some data points for 2016: Amagansett, the average home is on the market for approximately 342 days, and the average sold price to last ask is approximately 7.5 percent. In Montauk, the spread was 12.3 percent; Northwest Woods in East Hampton was approximately 10.5 percent; and Bridgehampton was approximately 12 percent.

**Mala Sander:** That's always a function of what the asking price is vs. what the market value of the property is. I'm seeing sellers getting smart about pricing the property right and, as a result, selling very close to—or above—asking.

**Evan Kulman:** Homes that are priced correctly are selling, and selling quickly. On a few occasions, we

have seen bidding wars, and homes have traded for asking price or above.

## Where is vacant, buildable land most in demand?

**Anthony DeVivio:** Village, village fringe, south of the highway.

**Judi A. Desiderio:** Everywhere.

**Robert M. Nelson:** There is very little inventory of vacant land. Location and price is, as always, most important.

**Patricia Petrillo:** Well, land in all locations is desirable, but I suppose the least amount of inventory would be south of the highway, as it is a smaller area.

**Paul Brennan:** North of the highway in Amagansett, Sagaponack, Bridgehampton and Water Mill. South of the highway Amagansett is the hot spot, but generally south of the highway in any of the hamlets is very desirable.

**Kenneth Smallwood:** Waterfront, waterview, village lots and south of the highway parcels are always in high demand. The towns of East Hampton and Southampton have the largest inventory of land for sale. Sagaponack, Wainscott and Amagansett have the least amount of inventory for sale.

**Evan Kulman:** Lots that are located south of the highway, as well as in the heart of any village, are always in demand.

## Is the Hamptons poised to see teardowns become more common or less common in 2017?

**Anthony DeVivio:** More common. There is less and less vacant land.

**Judi A. Desiderio:** Of course, as vacant lots get gobbled up.

**Robert M. Nelson:** Teardowns will continue as vacant buildable land is becoming scarce.

**Patricia Petrillo:** I think we are starting to run out of teardowns as well as land. Building is almost always the last choice, but New York buyers will do it in order to buy the location they want.

**Paul Brennan:** Teardowns will slow down with market conditions. If the market is hot, teardowns will continue. If the market cools, so will teardowns.

**Kenneth Smallwood:** Yes, as vacant, desirable, buildable lots become harder to find, builders are looking to buy older homes and tear them down. You saw this activity in spades in the Lanes in Amagansett several years ago. Amagansett North is seeing similar activity today. More affordable areas where this activity is taking place include Hither Hills (Montauk) and the Northwest Woods (East Hampton).

**Mala Sander:** Recycling makes sense! There's always a market for developers and end users to create homes that meet today's lifestyle wants and needs. As the market continues to stay strong,

developers will be there looking for opportunities to tear down and build new. And when buyers can't find exactly what they want in a given price point, they are wise to look at opportunities to create their own dream house in a great location, by finding a lower-priced home that they can tear down or renovate.

**Evan Kulman:** Teardowns will continue to remain common.

### What designs are trending in new builds?

**Anthony DeVivio:** Modern Design structures are in, big time. The only headwind they have is the cost to build. It could be two times the cost of a traditional. That said, people are spending the money.

**Judi A. Desiderio:** Modern, clean lines.

**Robert M. Nelson:** Open light floorplans are most in demand. Some modern with lots of glass are catching people's eye.

**Patricia Petrillo:** Generally, many new construction projects feature a classic shingled exterior with a more contemporary interior, especially in designing kitchen and bathroom cabinets, lighting, and floor color. You will also see several new construction projects with black framed windows, either on a natural shingled house or a white shingled house. It's a relatively new and very pretty look.

**Paul Brennan:** Contemporary with interesting but subtle design.

**Kenneth Smallwood:** Modern design is very much in demand. Architects such as Bates Masi, MB Architecture, Blaze Makoid, and Barnes Coy are at the forefront.

**Mala Sander:** The blending of indoor and outdoor spaces is becoming very important, as homeowners want to increase the ways they can enjoy their properties. Outdoor "rooms," kitchens and living areas, drastically increase living—and entertaining—space. Fully finished lower levels that offer large walls of light and full egress. Also, staging a new build is a must, so buyers can get a sense of the size and scale of the spaces in the home. Some developers are fully staging the homes, including artwork, curios, fully stocked kitchens, and fitted-out bedrooms and baths. They are delivering not just a "new build" but a vision of the lifestyle the new buyer could have. It works!

**Evan Kulman:** Although the traditional cedar shingle-style homes are always common, I am seeing a trend beyond Transitional, and now revisiting Modernism.

### Did East Hampton's new rental registry law have an effect on the summer rental market in 2016?

**Anthony DeVivio:** Not really. The rental market has been weak for three years.

**Judi A. Desiderio:** Yes, it certainly frustrated most owners.

**Robert M. Nelson:** Some confusion, but once owners understood the law and procedure, it seemed less upsetting.

**Paul Brennan:** Yes. I think the rental law made people question if they really wanted the hassle that registration would entail.

**Kenneth Smallwood:** Yes, it had an impact. First, the confusion factor—homeowners had to adjust

to another layer of bureaucracy and oversight. However, it did bring to the forefront existing single-family rental standards already on the books. As a result, landlords are more vigilant in screening prospective tenants—which has reduced the size of their rental pool.

**Evan Kulman:** At first, homeowners were unclear of the process and purpose. However, we do not feel that this was a major factor contributing to the 2016 rental market.

### Now that the White House has changed hands to a new administration, how is the Hamptons market reacting?

**Anthony DeVivio:** I do not think the market cares one bit about Washington, D.C. It cares about confidence in keeping your earning power. Period.

**Judi A. Desiderio:** Appointments have increased since the election ended.

**Robert M. Nelson:** Many people were holding back on decisions, as during many presidential elections. It seems like that backlog of people have come out to buy.

**Patricia Petrillo:** The real estate market has been busy since the election. Since so many of our customers are involved in the financial markets, if those markets do well and there is positive activity and enthusiasm, our real estate market follows.

**Paul Brennan:** The White House change has given people hope, but they're not acting until definitive action takes place. Wait-and-see attitude.

**Kenneth Smallwood:** There are varying opinions. Some say people were sitting on the sidelines prior to the presidential election. Others feel that the Trump stock market bump since the election will bode well for the Hamptons housing market. Bottom line: If new policies are put in place that help grow the economy, we will benefit.

**Mala Sander:** Every presidential election year brings a pause to the real estate market. Now that the election is behind us, there is a sense of optimism that changes in programs and policies will have a beneficial effect on real estate.

### As the Federal Reserve considers raising short-term interest rates further, should home sellers be concerned?

**Anthony DeVivio:** They should be concerned. I believe one of the reasons we will have a good first half is because buyers see rates going higher and therefore want to buy now before they go higher. A serious seller should take advantage of this window. Don't be overpriced.

**Judi A. Desiderio:** Just a tad.

**Robert M. Nelson:** These raises are small and still completely low compared to history. But it might stimulate some buyers to make a move vs. waiting.

**Patricia Petrillo:** Most of my transactions are not subject to financing, and I assume that's the case for most brokers, since this is a second-home market. In addition, I think we have all been hearing for many months that the current very low interest rates are going up. So I don't think it will affect our market.

**Paul Brennan:** Yes. With each up-tick of interest rates, the customer's buying power is diminished. If the economy really takes off, they will raise rates significantly. Buy now.

**Kenneth Smallwood:** Rising interest rates will have an impact on the future buying power of homeowners. The current 30-year Jumbo rate is approximately 4.3 percent, up approximately a half of a basis point over the last three months. If the economy continues to improve, financial experts are predicting two or three increases in the Fed's Fund Rate in 2017. A 1-percent increase in mortgage interest rates reduces buying power approximately 10 percent, which could limit home price increase by sellers. Smart buyers will try to beat future interest increases by buying sooner rather than later. In my opinion, if you are thinking about selling your Hamptons home, now is a good time to put your home on the market.

**Mala Sander:** Everything is relative. The interest rates are currently the lowest on record, and increases from that starting point should not drastically affect home sales.

**Evan Kulman:** Home sellers should always be concerned with pricing their homes correctly at the start, versus chasing the market at a later date.

### What will 2016 Wall Street bonuses mean for the 2017 Hamptons real estate market?

**Anthony DeVivio:** I worked for 25 years on Wall Street before coming into this business. All indications from the friends I still have on the Street is that bonuses are down. It means they probably move down the price spectrum if they decide to buy something.

**Robert M. Nelson:** Typically, as those bonuses come in, those buyers buy homes.

**Patricia Petrillo:** I hope it means all the bonus money will be spent buying homes on the East End.

**Paul Brennan:** Again, bonuses are usually a good indicator of future market conditions, but that must translate a feeling that Wall Street will stay strong before they buy in the Hamptons.

**Kenneth Smallwood:** Historically, strong year-end bounces for Wall Street bodes well for the Hamptons housing market.

**Mala Sander:** There's no question much of the Hamptons market is driven by Wall Streeters, and lower bonuses obviously means those buyers will have less discretionary funding for second homes. The Hamptons market is buoyed by always being a triple-mint investment that's attractive to buyers from many other walks of life, including media and entertainment, sports, retail, and other industries.

### The demand for luxury properties in the \$10 million-plus range softened in 2016. What is the trajectory in 2017?

**Anthony DeVivio:** I do not see it changing.

**Judi A. Desiderio:** This is the wild card. While at this moment I believe the high end will do better this year than last, it could shut off on a dime.

**Robert M. Nelson:** Time will tell, but we have seen a few very high-priced properties go into contract already. This could trigger others.

**Patricia Petrillo:** When there is a new surplus of higher-priced properties on the market, it takes time for buyers to adjust. Over the past 30 years, this has happened again and again, and prices have consistently gone up. Many can remember those deals that were missed even two years ago. I think

we are through the adjustment period, and we will see an increase in purchase activity.

**Paul Brennan:** Right now, the trajectory for luxury properties is sporadic.

**Kenneth Smallwood:** The luxury home market has softened. According to a recent report from CNBC's "Inside Wealth," the average sale price for the Hamptons luxury market—the top 10 percent of sales by price—fell 43 percent, to \$7.06 million. Meanwhile, inventory surged 21 percent. In the current market, aspirational pricing for high-end properties has gone cold. While a big asking price gets attention and media buzz, it usually leads to big cuts in the asking price down the road.

However, many Hamptons builders are cautiously optimistic the high-end market will start to come back if the economy continues to improve in 2017.

**Evan Kulman:** The demand for luxury properties in both New York City and the Hamptons has softened. Besides pool and tennis, what must-have amenities are being requested by homebuyers?

**Anthony DeVivio:** Spas, smart houses, outdoor kitchens.

**Judi A. Desiderio:** Immaculate interiors and outdoor living spaces.

**Robert M. Nelson:** Move-in, and light and bright. Bathrooms for each bedroom.

**Patricia Petrillo:** I think many buyers with children want a finished basement. A large family room/kitchen that opens to rear yard space. Some feel a ground-floor bedroom is very important for visiting parents and guests. Parents with young children want to be on the same floor as their children, but that changes when children are grown; buyers with grown families and grandchildren respond positively when bedrooms are in separate areas that offer privacy.

**Paul Brennan:** Open, airy floor plan, pool with privacy, finished basement.

**Kenneth Smallwood:** In new construction, buyers want open floor plans with high ceilings (a minimum of 10 feet) on every level. Smart home technology and outdoor entertainment areas, with a pool house, dining area, kitchen and fireplace, also are high on their lists.

**Mala Sander:** Smart home technology that allows homeowners to control all aspects of the home (HVAC, lighting, sound and security) remotely is a must-have these days. Also important: finished lower levels with full light exposure, so the space feels open, airy. Large wine cellars are also becoming de rigueur, and the trend is to have them visible on the main level rather than in the lower level.

**Evan Kulman:** The ease of indoor/outdoor living is always a must-have. Spa-like bathrooms and gyms/workout areas continue to be a favorite to our customers.

#### **What villages and hamlets are condo buyers gravitating toward?**

**Anthony DeVivio:** Southampton, Sag Harbor.

**Judi A. Desiderio:** Sag Harbor and Southampton.

**Robert M. Nelson:** As they typically are easy care and lower priced, they continue to be in demand.

**Patricia Petrillo:** Wherever there are new condos.

**Paul Brennan:** Sag Harbor, Southampton and Montauk.

**Kenneth Smallwood:** Sag Harbor is a hot condo market. The Watchcase Factory condo project has been very successful, offering New York City loft-style living in the heart of the village. There are also other condo projects along Water Street offering great water views and easy access to shops and marinas. Amagansett and Montauk offer a large, more affordable inventory of condominiums, many with direct ocean or bay access.

**Mala Sander:** Southampton and Sag Harbor are hot markets for the condo buyers, given the vibrancy of village life there.

**Evan Kulman:** Sag Harbor.

#### **What factors are most influencing the south-of-the-highway market right now?**

**Anthony DeVivio:** Exact location. Size of lot.

Proximity to the beach and closest village.

Condition of the nearby beaches.

**Judi A. Desiderio:** Economy, overall.

**Robert M. Nelson:** Correctly priced homes.

**Patricia Petrillo:** Price.

**Paul Brennan:** Values.

**Kenneth Smallwood:** Availability of inventory. There was a big run-up in the number of units sold in 2015, depleting inventory in high-demand locations.

#### **What factors are most influencing the west-of-the-canal market right now?**

**Anthony DeVivio:** Convenience to New York City.

Value for your dollar spent.

**Judi A. Desiderio:** Both retiring baby boomers and young professionals seeking easy access to New York City.

**Robert M. Nelson:** We have some of the highest sales ever from our Brown Harris Stevens Westhampton office.

**Patricia Petrillo:** Price, where generally it is more reasonably priced than east of the canal.

**Paul Brennan:** The feeling that buyers are getting more for their money and less travel time from the city.

**Kenneth Smallwood:** Generally, more affordable housing and a shorter commute from Manhattan.

**Mala Sander:** I believe the most significant factor affecting all our markets at the moment is the perceived value vs. asking price. Buyers are very well-versed in market activity and want to buy smart. Properties that are not priced right are sitting on the market, and eventually sell at prices under value, because the seller is forced to keep dropping the price to meet the market.

**Evan Kulman:** The close proximity to the city, as well as the rest of the tri-state area.